

**Systems Within Systems – Free and Open Source  
Software Licences under German and United States Law**



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## **ABSTRACT**

Free and Open Source Software (FOSS) licences channel the exclusionary and individualising force of copyright to establish a qualitatively different, somewhat subversive, system for the exploitation of software. This thesis examines how it is that FOSS licences establish this ‘system within a system’ under both German and United States law. The inquiry begins with a detailed examination of FOSS licence templates as the instruments which transform code from its default position as the ‘res’ of proprietary relations to its status as ‘open’ or ‘free’. The thesis then considers whether FOSS licence templates, as the legal basis for this subversive move, are valid and enforceable under domestic law. In addressing this question, the thesis undertakes a critical analysis of the leading case law in each jurisdiction. Going beyond the immediate case law, the thesis considers the broader systemic effects of FOSS licence enforcement. It highlights how building a system within a system foments certain tensions and contradictions within the law, in turn giving rise to unintended consequences and legal uncertainty. By highlighting these tensions, the thesis argues that the questions of FOSS licence enforcement in Germany and the United States may not be as settled as some may think.

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## TABLE OF ABBREVIATIONS

AGB	Allgemeine Geschäftsbedingungen (General Terms and Conditions)
ALI	American Law Institute
API	Application Programming Interface
ASP	Application Service Provider
BGB	Bürgerliches Gesetzbuch (German Civil Code)
BGH	Bundesgerichtshof (German Federal Court of Justice)
BUS	Binary-Use Only
CAFC	United States Court of Appeals for the Federal Circuit
CC	Creative Commons
CJEU	Court of Justice of the European Union
CLA	Contributory Licence Agreement
CONTU	Commission on New Technological Uses of Copyrighted Works
DMCA	Digital Millennium Copyright Act
DRM	Digital Rights Management
EEA	European Economic Area
EPO	European Patent Office
EULA	End-User Licence Agreement
EU	European Union
FLA	Fiduciary Licence Agreement
FOSS	Free and Open Source Software
FSA	Free Software Act
FSD	Free Software Definition
FSF	Free Software Foundation
FSFE	Free Software Foundation Europe
FUD	Fear, Uncertainty and Doubt
IaaS	Infrastructure as a Service
ifrOSS	Institut für Rechtsfragen der Freien und Open Source Software (Institute for Legal Questions on Free and Open Source Software)
IPR	Intellectual Property Rights
MIT	Massachusetts Institute of Technology
NCCUSL	National Conference of Commissioners on Uniform State Laws
NPE	Non-Practising Entity
OEM	Original Equipment Manufacturer
OSD	Open Source Definition
OSI	Open Source Initiative
OSS	Open Source Software
PaaS	Platform as a Service
RAM	Random-Access Memory
SaaS	Software as a Service
SFC	Software Freedom Conservancy
SFLC	Software Freedom Law Center
TPM	Technological Protection Measures

TRIPS	The Agreement on Trade-Related Aspects of Intellectual Property Rights
TRO	Temporary Restraining Order
UCITA	Uniform Computer Information Transactions Act
UCC	Uniform Commercial Code
UNESCO	United Nations Educational, Scientific and Cultural Organization
UrhG	Urheberrechtsgesetz (German Copyright Act 1965)
US	United States of America
WCT	WIPO Copyright Treaty
WIPO	World Intellectual Property Organization
WPPT	WIPO Performances and Phonograms Treaty

### **Licence Abbreviations**

AGPL	Affero General Public Licence
ASL	Apache Software Licence
BSD	Berkeley Software Distribution Licences
CC0	Creative Commons Public Domain Dedication
CC-BY	Creative Commons Attribution
CC-BY-NC	Creative Commons Attribution Non-Commercial
CC-BY-NC-SA	Creative Commons Attribution Non-Commercial Share-Alike
EURL	European Union Public Licence
DWTFPL	Do What the F**k You Want To Public Licence
GPL	GNU General Public Licence
LGPL	GNU Lesser General Public Licence
MIT	Massachusetts Institute of Technology Licence
MPL	Mozilla Public Licence

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# Systems Within Systems – Free and Open Source Software Licences under German and United States Law

## [0.0] Introduction:

The legal phenomenon of Free and Open Source Software (FOSS) licensing has been given many labels over the years. It has been described as a ‘legal hack’,<sup>1</sup> a ‘paradox’,<sup>2</sup> an ‘enigma’,<sup>3</sup> a ‘revolution’,<sup>4</sup> an ‘alternative paradigm’,<sup>5</sup> and ‘a form of intellectual jujitsu’.<sup>6</sup> It been said that FOSS licences ‘turn copyright on its head’<sup>7</sup> and ‘use the legal system that software hoarders have set up against them’.<sup>8</sup> While some are clearly more rhetorical than others, there is a general theme that emerges from these characterisations of FOSS licensing. The general theme is one of subversive contradiction; the notion of a system operating within a system, one that seeks to achieve ideational and functional objectives that are opposed to – albeit sustained by – those of the system in which it is situated. This

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<sup>1</sup> Williams, *Free as in Freedom: Richard Stallman’s Crusade for Free Software* (O’Reilly, 2002) Chapter 9 <[www.oreilly.com/openbook/freedom/ch09.html](http://www.oreilly.com/openbook/freedom/ch09.html)> accessed 28.08.17.

<sup>2</sup> Harkrider & Steinthal, *The Open Source Paradox: Innovation in the Absence of Exclusive Property Rights* (2011) 38 Comp. L Int’l. 38; McJohn, *The Paradoxes of Free Software* (2001) 9 Geo. Mason. L. Rev. 25

<sup>3</sup> Delong, *The Enigma of Open Source Software* (Progress and Freedom Foundation, March 2004) <[www.pff.org/issues-pubs/pops/pop11.8opensource.pdf](http://www.pff.org/issues-pubs/pops/pop11.8opensource.pdf)> accessed 28.08.17.

<sup>4</sup> See generally, Gomulkiewicz, *How Copyleft Uses License Rights to Succeed in the Open Source Software Revolution and the Implications for Article 2B* (1999) 36 Hous. L. Rev. 179

<sup>5</sup> Rosen, *Open Source Licensing: Software Freedom and Intellectual Property Law* (Prentice Hall, 2005) p.313; Halbert, *The Open Source Alternative: Shrink-wrap, Open Source and Copyright* (2003) 10 E Law 4; Maher, *Open Source Software: The Success of an Alternative Intellectual Property Incentive Paradigm* (2000) 10 Fordham I.P., Media & Ent. L.J. 619

<sup>6</sup> Williams (n 1)

<sup>7</sup> See, Tozzi and Zittrain, *For Fun and Profit: A History of the Free and Open Source Software Revolution* (MIT Press, 2017) 86. This expression has been used by countless authors over the years in relation to FOSS licences.

<sup>8</sup> Williams (n 1)

thesis seeks to understand how it is that FOSS licences establish this system within a system.

The inquiry begins with the FOSS licence template. It is the FOSS licence template that transforms code from the default position as the ‘res’ of proprietary relations to its status as ‘open’ or ‘free’.<sup>9</sup> It is through the FOSS licence template, with its preformulated mechanisms and features, that the exclusionary and individualising force of copyright is channelled to achieve a qualitatively different, somewhat subversive, outcome with respect to the exploitation of software.

For the ‘legal hack’ to work, both at a functional and ideational level, and for the alternative system to effectively co-exist, then the templates must be valid and enforceable in accordance with domestic law. For decades, there was uncertainty as to whether the templates would be enforceable in courts around the world.<sup>10</sup> Fuelling this uncertainty were several factors: the unorthodox nature of their objectives, the novelty of certain features and mechanisms, their international character, the variability of national laws, and the concerted efforts of some to actively spreading fear, uncertainty and doubt.<sup>11</sup>

This thesis considers whether FOSS licence templates, as the legal basis for the subversive contradiction of the FOSS licensing model, are valid and enforceable in

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<sup>9</sup> On the concept of ‘res’ in relation to copyright, see Rahmatian, *Copyright and Creativity: The Making of Property Rights in Creative Works* (Edward Elgar, 2011) 4

<sup>10</sup> Metzger (ed.), *Free and Open Source Software (FOSS) and Other Alternative License Models* (Springer, 2016) 45

<sup>11</sup> The expression ‘fear, uncertainty and doubt’ (‘FUD’) refers to a strategy that seeks to influence behaviour through misinformation and fear. In the software context, some companies were accused of employing such a strategy to counter the growing adoption of FOSS, particularly in the late 1990s and early 2000s. See, Malcolm, *Microsoft Accused of Spreading Opensource FUD* (Computerworld, 26 November 2001) <[www.computerworld.co.nz/article/37893/microsoft\\_accused\\_spreading\\_open\\_source\\_fud](http://www.computerworld.co.nz/article/37893/microsoft_accused_spreading_open_source_fud)> accessed 28.08.17. See also, Miller, *Allchin’s Folly: Exploding Some Myths About Open Source Software* (2002) 20 *Cardozo Arts. & Ent.L.J.* 491

domestic courts. However, the thesis does not stop at the question of whether the licences templates are enforceable (spoiler: they largely are).<sup>12</sup> Instead, the aim of this thesis is to go further in considering how FOSS licence templates have been enforced in different jurisdictions, what effect their enforcement has had on the broader licensing framework and, conversely, whether certain developments in the broader licensing framework are likely to have any effect on their enforceability in future. In this sense, the thesis offers a broader, longitudinal analysis of a question that many may consider settled, out-dated, or exhaustively covered in the literature.<sup>13</sup>

It should go without saying that FOSS licence enforceability is an important question to address. FOSS serves as the backbone for modern information communication technologies. It is vital to almost every aspect of our daily life, running on everything from our personal smartphones and computers, home appliances and automobiles, to complex systems of industry and global commerce. Without a clear legal basis for enforcing FOSS licence restrictions, there will be less incentive for individuals, communities, companies and public institutions to participate in the production and use of FOSS. It is perhaps less obvious why considering the broader effects of FOSS licence enforcement is important. As will be demonstrated throughout this thesis, this broader analysis is important because it highlights how, when building the subversive system of FOSS within the broader system of copyright, we must remain aware of how the two systems interact. Failure to do so may risk giving rise to unintended consequences. Indeed, it is only with an awareness and

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<sup>12</sup> As will be discussed in Chapter Four, while FOSS licences have been enforced by courts in both jurisdictions, there remains some lingering uncertainty in the wake of these decisions.

<sup>13</sup> Certainly, the peak of interest in FOSS licence enforcement was the early-to-mid 2000s; a point at which the early case law was coming before the courts. Now, there is admittedly less interest in the topic of enforcement. As Metzger argues on the question of validity and enforcement, 'the dust has settled', *Metzger* (n 10) 46

appreciation of these broader interactions that we can begin to deal with licensing issues in a way that avoids or mitigates the harms of unintended consequences.

The thesis looks at FOSS licence enforcement from the perspective of both the United States and Germany. This multi-jurisdictional approach is designed to reflect the global aspirations of FOSS and the international character of FOSS licence templates.<sup>14</sup> The US has been chosen primarily because most FOSS licence templates have been drafted by US lawyers and embody US values of liberalism. By contrast, Germany has been chosen on the basis that it is a leading civil law country with a legal tradition that differs in many respects from that of the US.<sup>15</sup> Thus, the German perspective allows us to assess whether the ‘legal hack’ or ‘system within a system’ can operate in vastly different legal environments. On a more pragmatic level, however, both the US and Germany provide ample case law and scholarship with which to conduct thorough analysis on the question of enforcement – a fact to which not all jurisdictions can lay claim.<sup>16</sup>

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<sup>14</sup> Strictly speaking, the thesis does not employ a formal comparative methodological framework. Instead, it is more accurately described as a multi-jurisdictional analysis with some informal comparative observations made throughout (c.f. functionalism); see, Michaels, *The Functional Method of Comparative Law* in Reimann and Zimmermann (eds.), *The Oxford Handbook of Comparative Law* (OUP, 2006) 340

<sup>15</sup> Not only is Germany part of the civilian tradition, but it is also forms part of the ‘droit d’auteur’ tradition which views copyright as an authorial right (c.f. a purely utilitarian or economic right). Furthermore, Germany is unique in that it has a monist conception of authors rights which means that it considers the economic and moral rights of the author to be inseparably intertwined and thus inalienable. See generally, Kase, *Copyright Thought in Continental Europe: its Development, Legal Theories and Philosophy* (South Hackensack, N.J.:F.B. Rothman, 1967); Dietz, *The Moral Right of the Author: Moral Rights and the Civil Law Countries* (1994) 19 Colum-VLA J.L. & Arts 199; Dietz, *Copyright Law in the European Community* (Alphen aan den Rijn: Sijthoff & Noordhoff, 1978)

<sup>16</sup> The writer’s place of residence, the United Kingdom, has no reported case law on FOSS enforcement. Indeed, many countries do not have few, if any, reported cases, see Metzger (n 10) 8; see also, Brande, Coughlin, Jaeger (eds.), *The International Free and Open Source Software Law Book* (Open Source Press, 2011) <<http://ifosslawbook.org>> accessed 28.08.17.

## **[0.1] Thesis Structure:**

This thesis is comprised of seven chapters. **Chapter 1** gives a brief overview of the history of legal protection of software and the reactionary rise of the FOSS. It also sets out some background information on FOSS licences, giving an overview of general characteristics and a taxonomy of licence types. **Chapter 2** begins the analysis of the licence templates proper. It identifies the principal objectives of FOSS licences and examines how certain mechanisms promote those objectives. **Chapter 3** examines a range of FOSS licences and compares the drafting techniques that each adopts to ensure that the enforcement objectives are realised in legal terms. **Chapter 4** looks at the enforcement of FOSS licences in both Germany and the United States. The chapter examines and evaluates the process by which scholars and judges have rendered FOSS licences enforceable within their respective domestic legal systems. **Chapter 5** considers the broader impact that FOSS case law has had on the licensing framework in both Germany and the US. It shows how the FOSS rulings have potentially empowered proprietary licensors in the commercial and consumer context in unprecedented ways. **Chapter 6** examines some recent developments in the general licensing frameworks of Germany and the US and considers the impact they may have on the continued enforceability of FOSS licences. It reveals how recent efforts to limit the powers of right-holders in the interests of users may unintentionally jeopardise FOSS licence enforcement. Finally, **Chapter 7** concludes by setting out and evaluating a range of approaches that legal systems may take in reconciling the tensions between FOSS licences and the general licensing framework.

On a more abstract level, the thesis can be divided into two main parts. The first four chapters are centred around FOSS licence templates, their objectives and features, as well as their interpretation and enforcement in domestic law. These chapters focus

exclusively on the construction of the ‘system within the system’ by FOSS licence drafters, scholars and judges. As such, they are more descriptive and typological in nature, navigating the templates, the pre-existing scholarship and case law. But this is important to set a solid foundation for the second part of the thesis, and it also highlights the nuanced complexities in FOSS licence templates that are often neglected in scholarship. The second part, which is comprised of the final three chapters, looks beyond FOSS licence templates themselves to consider the broader consequences of building a ‘system within a system’. This part adopts a more normative approach, highlighting the dangers of building a system within a system and the potential for unintended consequences to arise. Overall, the final three chapters underscore the need to avoid a ‘one-size-fits-all’ approach to licensing issues in recognition of the fact that the legal framework is often used by authors to pursue vastly different qualitative outcomes.

## **[0.2] Scope of Inquiry**

In covering the treatment of FOSS licence templates under German and US law, this thesis will focus only on the core legal issues pertinent to enforcement. As such, there are a range of important legal issues that will fall outside the scope of the inquiry, many of which are front and centre of contemporary legal debates concerning FOSS licensing. For example, the thesis does not address questions over authorship and ownership,<sup>17</sup> nor does it address debates concerning the scope of FOSS licence restrictions.<sup>18</sup> Indeed, there are a whole host

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<sup>17</sup> Chestek, *The Considerable Advantages of a Theory of Joint Ownership for Free and Open Source Software Projects* (Chestek Legal, 2017) <<http://chesteklegal.com/wp-content/uploads/2013/01/Joint-Authorship-final-unbranded.pdf>> accessed 28.08.17.

<sup>18</sup> E.g. whether and to what extent the modification, aggregation, compilation, and distribution of software triggers licence obligations under respective FOSS licences.

of issues that fall outside the scope of this thesis that are nevertheless central to contemporary debates on FOSS, including discussion of patents, trademarks, disclaimers of warranties and limitations on liability, competition law, technical standardisation and more.<sup>19</sup> The thesis focuses only on the basic features of FOSS licence templates as they relate to enforcement.

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<sup>19</sup> For an introductory overview to these broader issues, see generally, Shemtov and Walden (eds.) *Free and Open Source Software: Policy, Law and Practice* (OUP, 2013)

# Chapter One: An Introduction to the Exploitation of Software

## [1.0] Introduction

Before examining how it is that FOSS licence templates establish a subversive system within a system, it is necessary to first have an understanding of the system which they seek to subvert. This chapter provides an introductory overview of the legal protection of software and the rise of the proprietary licensing model as the dominant form of software exploitation. It demonstrates how the FOSS licensing model can be understood as a direct response to the propertisation of software and the perceived harms of proprietary exploitation. In this respect, the chapter highlights how FOSS embodies an alternative vision for the exploitation of software, but a vision that must find expression through the same legal framework. To conclude, the chapter sets out some important background information on FOSS licences, giving an overview of some general characteristics of the licence templates and a taxonomy of licence types. Overall, this chapter provides much needed context to the substantive issues discussed in following chapters.

## [1.1] What is Software?

There is no conclusive definition of what constitutes ‘software’ or a ‘computer program’. In general, a computer program is commonly understood to act as a set of instructions that order a computer to carry out certain tasks. It serves as a form of communication between man and computer. Accordingly, both man and machine need to be able to interpret the instructions when they are being issued or received. *Source code* is the higher-level set of commands, the human-readable *programming language*. Once the programmer has written the source code, it is compiled into a lower-level language (assembly language) and then assembled into *object code* (or binary code), the machine-readable form of the command,

represented in binary as a series of 0-or-1 values. The reverse process by which compiled object code is translated back into human-readable source code is referred to as ‘decompilation’. Decompilation generally forms part of a broader process referred to as ‘reverse engineering’ whereby one can analyse the decompiled code to study and understand the components and structure of a program.<sup>20</sup>

## [1.2] The Legal Protection of Software

The history of the legal protection of software is long, but it is important to cover as background to the issues discussed in this thesis, even if in an extremely brief manner. Indeed, to understand this history is to understand the history and origins of FOSS. From the 1950s until the 1970s, computer programs were generally seen as components that had no independent economic significance to the hardware on which they were stored and executed.<sup>21</sup> As a result, there was no perceived commercial need for the industry to rely on exclusive rights, even though many firms claimed at the time (questionable) copyright on their source code.<sup>22</sup> During this pre-licensing period, source code was freely shared amongst communities of professional programmers and hobbyists.<sup>23</sup> This form of sharing was loosely regulated by an informal, unwritten code commonly referred to as the ‘hacker

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<sup>20</sup> For a general overview of basic computing concepts, see, Burdett (ed.), *The BSC Glossary of Computing* (13<sup>th</sup> ed., BSC, 2013)

<sup>21</sup> Murdock, *Open Source and the Commoditization of Software* in DiBona, Cooper & Stone (ed), *Open Sources 2.0: The Continuing Evolution* (O’Reilly, 2005) 93. See also, Dam, *Some Economic Considerations in the Intellectual Property Protection of Software* (1995) 24 J. Legal Stud. 321 (discussing the changing practices in ‘bundling’ and ‘unbundling’ software).

<sup>22</sup> The US Copyright Office permitted copyright registration on computer programs from 1964. However, this was subject to a ‘rule of doubt’ and was conditional of the full source code being deposited with the office; see Note, *Copyright Protection for Computer Programs* (1964) 64 Colum. L. Rev. 1274

<sup>23</sup> See Moglen, *Anarchism Triumphant: Free Software and the Death of Copyright* (1999) *First Monday* 4(8) <[www.firstmonday.org/issues/issue4\\_8/moglen/](http://www.firstmonday.org/issues/issue4_8/moglen/)> accessed 28.08.17.

ethic' which held that programmers were under an ethical obligation to share their work so that others could study, understand, engage with, and improve upon the code;<sup>24</sup> the programmers' equivalent of Mertonian norms.<sup>25</sup> This ethic served as the nascent, informal expression of FOSS philosophy. It would later be reconstituted and re-established through the very legal protections that sought to displace it.

By the mid-1970s, several trends had converged to bring about changes to the legal protection of software. Firstly, both firms and individuals started to be more proprietorial about their source code. Many began to question the primacy of this ethical relation and its effect on the output and quality of software production. Bill Gates' infamous letter in 1976 is a good example of this shift in mentality, highlighting his concerns over what he considered to be the 'theft' of software.<sup>26</sup> Secondly, the cost of hardware dropped significantly over this period, making computers more accessible and affordable to a domestic market. This also led to the unbundling of software from expensive end-to-end hardware offerings, creating a distinct market for the software itself.<sup>27</sup> Thirdly, prompted by these changes, there was growing debate over what was the appropriate legal means for

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<sup>24</sup> Steven Levy's pioneering study into hacker culture distilled this 'ethic' into the form of six principles. They are as follows: (1) Access to computers—and anything which might teach you something about the way the world works—should be unlimited and total. Always yield to the Hands-on Imperative; (2) All information should be free; (3) Mistrust authority—promote decentralization; (4) Hackers should be judged by their hacking, not bogus criteria such as degrees, age, race or position; (5) You can create art and beauty on a computer; (6) Computers can change your life for the better. See; Levy, *Hackers: Heroes of the Computer Revolution* (London: Penguin, 1994, c1984)

<sup>25</sup> See Merton, *The Normative Structure of Science* in Storer (ed.) *The Sociology of Science: Theoretical and Empirical Investigations* (Chicago: University of Chicago Press, 1942) 267-278

<sup>26</sup> Gates' letter essentially argued that programmers' labour should be rewarded economically and that without such rewards there would never be incentives to write quality software. Gates, *An Open Letter to Hobbyists* (3 February 1976)  
<[www.digibarn.com/collections/newsletters/homebrew/V2\\_01/gatesletter.html](http://www.digibarn.com/collections/newsletters/homebrew/V2_01/gatesletter.html)> accessed 28.08.17.

<sup>27</sup> See generally, *Dam* (n 21)

protecting software.<sup>28</sup> It was becoming increasingly apparent that computer programs could potentially fall under a variety of existing legal regimes – copyright law, patent law, trade secrecy law – or may even warrant the creation of a *sui generis* form of protection.<sup>29</sup>

In response to these changes, the US government set out to review the status of the legal protection of software. In 1978, the Commission on New Technological Uses of Copyrighted Works (CONTU) issued a report that sought to address the growing uncertainty in this area.<sup>30</sup> The Commission's report recommended copyright as an appropriate means of protection, stating that programs could fall within the existing category of 'literary' works.<sup>31</sup> The US legislature subsequently amended the Copyright Act in 1980 to reflect the recommendations of the Commission's Report.<sup>32</sup> Alongside this development, US courts had been dealing with similar questions regarding the protection of software under patent law.<sup>33</sup> In 1981, the US Supreme Court upheld the validity of a patent for a software-related invention in the landmark case of *Diamond v Diehr*,<sup>34</sup>

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<sup>28</sup> See, Samuelson, *A Case Study on Computer Programs* in Wallerstein, Mogee, Schoen, (eds.) *Global Dimensions Intellectual Property Rights in Science and Technology* (National Academies Press, 1993) 284-318

<sup>29</sup> Several early academic studies argued in favour of a *sui generis* form of protection for software: see Galbi, *Proposal for New Legislation to Protect Computer Programming* (1970) *Bulletin of the Copyright Society of the USA*, 17(4) 280; Galbi, *The Prospect of Future Legislation and Court Action Concerning the Protection of Programming* (1973) *Jurimetrics Journal* 13, 234. Leading to proposals for *sui generis* protection of software at the international level: *Model Provisions on the Protection of Computer Software*, WIPO No. 814 (E) 1978.

<sup>30</sup> See, *Final Report on the National Commission on New Technological Uses of Copyrighted Works* (1981) 3 *Computer L.J.* 53; For a brief overview of the Commission's debates, see *Samuelson* (n 28) 289-90.

<sup>31</sup> *Ibid* 54

<sup>32</sup> Computer Software Copyright Act, Pub. L. No. 96-517, 94 Stat.3015, 3028 (12 December 1980) (codified at 17 U.S.C. 101, 117(1994))

<sup>33</sup> See *Gottschalk v Bensen*, 409 U.S. 63 (1972) and *Parker v. Flook*, 437 U.S. 584 (1978). See generally, Samuelson, *Benson Revisited: The Case Against Patent Protection for Algorithms and Other Computer Program-Related Inventions* (1990) 39 *Emory L.J.* 1025

<sup>34</sup> *Diamond v Diehr*, 450 U.S. 175 (1981)

affirming that both the literal and mechanical properties of computer programs can be protected under different regimes.

Other jurisdictions were slightly slower to respond to the legal questions surrounding computer programs. Not only were many countries behind the curve of the US with regards to technical innovation, but many faced specific challenges in reconciling computer programs with existing categories of law.<sup>35</sup> At the international level, it was not until 1985 that notable developments were made on this front when a committee of experts convened by WIPO and UNESCO chose to classify computer programs as ‘literary’ works within the meaning of Article 2(1) of the Berne Convention.<sup>36</sup> This prompted several other countries to pass national copyright legislation amending their laws to reflect the international position.<sup>37</sup>

In Europe, it was around the mid-1980s that national initiatives were taking shape with regard to the legal protection of software. In 1985, the EPO examination guidelines were updated to reflect the growing number of applications for software-related inventions.<sup>38</sup> That same year the United Kingdom amended their copyright legislation to

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<sup>35</sup> E.g. In many civil jurisdictions, the *droit d’auteur* tradition place great emphasis on the *originality* of the work, justifying protection on the basis that the work is an embodiment of the author’s personality. Given the functional properties of computer programs, there was initially a perception that they may fail to satisfy the originality requirement for want of creative or personal input. See, *Rahmatian* (n 9) 57-59

<sup>36</sup> The text of the Berne Convention does not explicitly refer to computer programs. The first international instrument to do so was the TRIPS agreement of 1994. Article 10(1) of TRIPS states that ‘Computer programs, whether in source code or object code, shall be protect as literary works under the Berne Convention (1971)’.

<sup>37</sup> Including Germany, France, United Kingdom, Spain, Denmark, Italy, Belgium, Netherlands, Brazil and Japan. N.b. France and Brazil initially enacted *sui generis* models operating under copyright law. See, Vasudeva, *Open Source Software and Intellectual Property Rights* (Wolter Kluwers, 2014) 247

<sup>38</sup> See, *Information concerning the amendment to the Guidelines for Examination in the European Patent Office*, Official Journal EPO 1985, 173

include computer programs within the category of literary works.<sup>39</sup> In Germany, the BGH held that computer programs were eligible for protection under the authors rights law (UrhG),<sup>40</sup> prompting a legislative amendment the following year.<sup>41</sup> Recognising the growing importance of the software industry in Europe and the increasingly central role it played in economic and social spheres, the EEC set out to provide greater clarity and uniformity with regard to the protection of software in the European Community.<sup>42</sup> A Green Paper published in 1988 set in motion the legislative process that would ultimately lead to the creation of Directive 91/250/EEC on the legal protection of computer programs.<sup>43</sup> Having considered various forms of protection, the EEC institutions settled on copyright as the most appropriate. However, it was also recognised that there needed to be special provisions dealing with unique considerations relevant to the use and exploitation software, e.g. provisions relating to the interoperability, decompilation, study and research, and other lawful uses of programs.<sup>44</sup>

Accordingly, by the 1990s it was well-established that computer programs were protected under copyright law and were also protected under patent law to the extent that the claims did not fall exclusively within the ambit of excluded subject matter. Through

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<sup>39</sup> Copyright (Computer Software) Amendment Act 1985. This was subsequently replaced by the Copyright, Designs and Patents Act 1988 (CDPA), see, Section 3(1)(b).

<sup>40</sup> Federal Court of Justice, No. I ZR 52/83 (09.05.1985) - *Inkasso-Programm*

<sup>41</sup> Law on the Amendment of Legal Provisions in the Copyright Field (Official Journal (Bundesgesetzblatt) No. 33 of 27 June 1985)

<sup>42</sup> See, *Green Paper on Copyright and the Challenge of Technology* COM (88) 172 final

<sup>43</sup> *Ibid.* See also, Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs, *OJ L 122, 17/05/1991 P. 0042 – 0046.*

<sup>44</sup> For commentary on Directive 91/250/EEC and the thinking behind it, see, Dreier, *Legislative Comment on The Council Directive of 14 May 1991 on the Legal Protection of Computer Programs* (1991) EIPR 319; see also, Derclaye, *Software Copyright Protection: Can Europe learn from American Case Law?* Part I (2000) EIPR 7

copyright and its proprietary notion of exclusivity, authors of computer programs were afforded extensive powers to restrict third parties from the reproduction, translation and/or distribution of their software.<sup>45</sup> Thus, the basic framework for the legal protection of software was set in place following several decades of relative legal uncertainty.

Notably absent from this brief history of the legal protection of software are the perennial debates over the *scope* of protection afforded to computer programs under copyright law;<sup>46</sup> an issue that continues to provide a source of ongoing debate for judges and scholars in all jurisdictions.<sup>47</sup> While the question of scope is central to the ongoing story of the legal protection of software, delineating the contours of protection over time, it does not warrant detailed treatment in the context of this brief historical overview.<sup>48</sup>

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<sup>45</sup> The emergence of the internet during the 1990s brought with it new challenges and opportunities for producing, disseminating and consuming copyright works, in turn raising questions over the suitability of the legal framework. The WIPO Copyright Treaty of 1996, seeking to tailor the rights of authors to the online environment, required member states to, *inter alia*, implement a more comprehensive notion of ‘communication to the public’ that covered the digital transmission of works and prohibit the circumventions of technological measures. The US implemented these changes through the Digital Millennium Copyright Act (DMCA), while the EU implemented them through Directive 2001/29/EC on the harmonisation of certain aspects of copyright and related rights in the information society (InfoSoc). See generally, Guibault et al, *Study on the Implementation and Effect in Member States’ Laws of Directive 2001/29/EC on the Harmonisation of Certain Aspects of Copyright and Related Rights in the Information Society: Final Report* (Institute for Information Law University of Amsterdam, February 2007) <[http://ec.europa.eu/internal\\_market/copyright/docs/studies/infosoc-study\\_en.pdf](http://ec.europa.eu/internal_market/copyright/docs/studies/infosoc-study_en.pdf)> accessed 28.08.17.

<sup>46</sup> Since copyright was first considered as a basis for protection, there have been ongoing debates over whether and to what extent copyright extends to cover certain things like program behaviour, programming languages, formats and interfaces, the structures, sequences and organisation of the program and the general ‘look and feel’ of the program (i.e. non-literal reproduction). See e.g., Samuelson, *A Fresh Look at Tests for Non-Literal Copyright Infringement* (2013) 107 Nw. U. L. Rev. 1821 (discussing the scope of protection for computer programs under US copyright infringement tests)

<sup>47</sup> The recent litigation between Oracle and Google in the US is just one example of the courts wrestling with the question of the scope of copyright protection in computer programs. See, *Oracle America, Inc. v Google, Inc.*, 750 F.3d 1339 (Fed. Cir. 2014); 872 F. Supp. 2d 974, 978-79 (N.D. Cal. 2012)

<sup>48</sup> The question of scope of protection of computer programs undoubtedly plays a significant role in relation to FOSS licence enforcement. While the thesis will discuss this issue where relevant, it will not form a core consideration in the context of this work. None of the FOSS licence enforcement cases discussed in this thesis raise any notable issues concerning the scope of protection, which is not to say that they are not pertinent in other respects.

### [1.3] The Rise of the Proprietary Licensing Model

During the 1970s, certain commercial practices started to emerge in the nascent software industry. The informal ‘hacker ethic’ that promoted open sharing was slowly replaced by a perceived need to restrict access to one’s source code.<sup>49</sup> Without any clear legal framework with which to secure property-like protection, firms began to distribute programs in binary-only copies of the program, rendering the source code ‘closed’ and inaccessible as a technical matter both for users and other developers.<sup>50</sup> In addition to these technical measures, firms relied on trade secrecy laws and restrictive contractual agreements to protect their increasingly valuable source code.<sup>51</sup> These highly restrictive contractual practices and technical measures became the dominant norm in the software industry, fuelled in large part by the ongoing uncertainty over the legal status of software.<sup>52</sup> Indeed, such measures provided the necessary preconditions for market relations to emerge in the absence of formal property rights.

However, as legislatures and courts finally began to acknowledge the subsistence of copyright in computer programs, many of these restrictive commercial practices continued to persist. As computers became more affordable for the domestic consumer

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<sup>49</sup> See, Zhu, *Authoring Collaborative Projects: A Study of Intellectual Property and Free and Open Source (FOSS) Licensing Schemes from a Relational Contract Perspective* (PhD paper, LSE, 2012), Section 2.2.2 (discussing the decline of the hacker ethic).

<sup>50</sup> *Ibid* 57

<sup>51</sup> Mark Lemley explains how ‘proprietary rights contracts’ served an evidential function, ensuring through their highly restrictive terms that the sale of a copy of software did not amount to the disclosure of a trade secret. See, Lemley, *Convergence in the Law of Software Copyright* (1995) 10 High Technology Law Journal 1, 4. Lemley also notes several cases in which US courts found the developer’s object code to be protected as a trade secret, e.g. *Data General Corp. v. Digital Computer Controls, Inc.*, 297 A.2d 433, 436 (Del. Ch. 1971)

<sup>52</sup> See, Lemley, *Intellectual Property and Shrinkwrap Licences* (1995) 68 S. Cal. L. Rev. 1239, 1242-43

market, the demand for software increased. The highly restrictive practices of the industry were carried through into the mass-market consumer context through the adoption of mass-market End-User Licence Agreements (EULAs).<sup>53</sup> The proprietary model thus emerged in which right-holders generated revenue by reserving exclusive rights in the program, granted limited licences to use the program accompanied by restrictive contractual agreements in exchange for a payment, and imposing technical constraints on the customers' access to the underlying source code by distributing binary-only versions.<sup>54</sup> Central to this proprietary model of software exploitation was the notion of the 'software licence' which granted to the end-user limited permission to perform restricted acts with the program (i.e. install and run), but simultaneously prevented ownership of the copy from passing to the licensee.<sup>55</sup>

Through the 1980s and 1990s, this strategy of reserving all rights, imposing restrictive contractual terms and limiting access to the underlying source code became synonymous with the proprietary model of software distribution. Of course, the model was not without its criticisms. Many commentators highlighted how the contracting techniques of mass-market software licensors (e.g. shrink-wrap and click-wrap agreements) did not conform with traditional contractual doctrine on notice and assent.<sup>56</sup> This in turn raised

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<sup>53</sup> This coincided with the practice of bundling written contractual terms with the copy of the software encased in plastic wrap, giving rise to the 'shrink-wrap' licence. See, Rustad & D'Angelo, *The Path of Internet Law: An Annotated Guide to Legal Landmarks* (2011) Duke L. & Tech. Rev. 12, para 33-35.

<sup>54</sup> Robert Gomulkiewicz refers to this under the nomenclature of 'Binary-Use Only' or 'BUS' licensing to contrast it with FOSS. See, Gomulkiewicz, *General Public License 3.0: Hacking the Free Software Movement's Constitution* (2005) 42 Hous. L. Rev. 1015, 1021.

<sup>55</sup> As will be discussed throughout this work, this common-law notion of the 'licence' plays an important role in determining whether the recipient of the work is entitled to exercise certain rights (e.g. first sale rights). The notion of 'licence' has a specific meaning within common law property jurisprudence; however, it has arguably taken on its own contested meaning within the software context; see generally, Carver, *Why License Agreements Do Not Control Copy Ownership: First Sales and Essential Copies* (2010) Berkeley Tech. & LJ. 25(4) 1888.

<sup>56</sup> See generally, Kim, *Wrap Contracts: Foundations and Ramifications* (OUP, 2013) Ch.4

concerns over the enforceability of contractual restrictions in EULAs. Notwithstanding these concerns, courts and commentators in the US (and most other jurisdictions for that matter) acknowledged that these contracting techniques were efficient and, to varying degrees, socially beneficial.<sup>57</sup> Given these efficiency considerations, it was generally held that mass-market EULAs should not be invalidated for certain deficiencies when assessed against conventional contractual doctrine.<sup>58</sup> Indeed, to do so would be to effectively undermine the basic model of the mass-market software industry.<sup>59</sup>

By the new millennium, the arrival of new technologies saw proprietary licensors adapt their practices. The use of technological protection measures (TPM) and digital rights management (DRM) added an additional technical layer of protection to their programs. Furthermore, the rise of the internet also fundamentally changed the way in which proprietary software was marketed, disseminated and used.<sup>60</sup> Over time, proprietary developers began to shift from a product model based on sales to a service model based on subscriptions, culminating in the popular phenomena of cloud-computing (e.g. SaaS, PaaS, IaaS).<sup>61</sup> Notwithstanding these fundamental shifts in technology and commerce, the proprietary model remained (and remains) faithful to its core principles, namely, that access

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<sup>57</sup> The economic justification for the enforcement of EULAs was preceded by similar economic arguments for the enforcement of standardised contracts in non-software cases. Kessler, *Contracts of Adhesion: Some Thoughts about Freedom of Contract* (1943) 43 Colum. L. Rev. 629, 623 ('In so far as the reduction of costs of production and distribution thus achieved is reflected in reduced prices, society as a whole ultimately benefits from the use of standard contracts').

<sup>58</sup> In the US, see the landmark decision in *ProCD v Zeidenberg*, 86 F.3d 1447 (7<sup>th</sup> Cir. 1996). See further discussion on this issue below at Section 5.2.1.B(ii).

<sup>59</sup> In *ProCD*, Easterbrook J. argued that enforcing the shrinkwrap EULA was necessary as traditional contracting techniques would 'drive prices through the ceiling or return transaction to the horse-and-buggy age'. *Ibid* 1452.

<sup>60</sup> See generally, *Rustad & D'Angelo* (n 53)

<sup>61</sup> See, Millard, *Cloud Computing Law* (OUP, 2014) Ch.1 (discussing common models for deployment of cloud resources)

to the underlying source code is legally and technically restricted, that end-users are granted limited access to the work subject to restrictions, and that such access is conditioned on the payment of a monetary fee. Overall, the proprietary model relies on the legal concepts of exclusivity of copyright and patent, the permissive notion of a licence that prevents ownership from passing in the copy, and a neo-liberal conception of contract law that allows for the imposition of restrictive contractual terms in the name of economic efficiency.<sup>62</sup>

While these practices paved the way for the rise of the highly lucrative global software industry, there were those who felt that the propertisation and commodification of software was problematic on many levels.<sup>63</sup> Not only did they mourn the loss of the hacker ethic and the sense of community and civic engagement that it engendered, but they expressed concerns that proprietary model would produce lower-quality software and would inevitably raise concerns over individual and civil liberties.<sup>64</sup> Thus, it was in response to growing concerns over the propertisation of software and the commercial practices of the proprietary model that the FOSS movement arose; a movement that sought to re-establish the normative values of the hacker ethic using the very legal protections that had replaced it.

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<sup>62</sup> Software patents have declined somewhat in relevance in recent years following the Supreme Court's decision in *Alice Corp. v. CLS Bank International*, 573 U.S. \_\_\_, 134 S. Ct. 2347 (2014).

<sup>63</sup> Richard Stallman is often personified as the living embodiment of this sentiment. His 'crusade' for free software in the face of growing propertisation is well-documented. See generally, *Williams* (n 1)

<sup>64</sup> Stallman, *Why Software Should be Free* in Gay (ed.) *Free Software Free Society: Selected Essays of Richard M. Stallman* (Soho Books, 2002) 121

## [1.4] The Rise of Free and Open Source Software

### [1.4.1] Historical Origins

FOSS can be understood as a response to the propertisation and commodification of software. Historical accounts of FOSS typically begin with the story of Richard M. Stallman who, during his tenure as a programmer at the Massachusetts Institute of Technology's (MIT) Artificial Intelligence Lab in the 1970's, grew increasingly frustrated and disillusioned with the direction of the industry.<sup>65</sup> He began experiencing what he referred to as the 'psychosocial' harms of proprietary software culture; i.e. a programmer's feeling of alienation from both his craft and community.<sup>66</sup> Facing a 'stark moral choice' of either 'join[ing] the proprietary software world, signing non-disclosure agreements and promising not to help [fellow programmers]' or 'leav[ing] the computer field altogether',<sup>67</sup> he instead decided to embark on creating a complete operating system that would adhere to the original ethos of the 'hacker ethic', an operating system for which the source code would be freely accessible, reproducible and modifiable by others.<sup>68</sup>

To achieve this, Stallman sought a means by which to ensure that developers who benefited from open access to a source code, who in turn modified and made extensions to the code, would give back their changes to help the project improve. His earlier attempts at this took the form of a non-legally-binding community agreement which required

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<sup>65</sup> Williams (n 1)

<sup>66</sup> Stallman (n 64) 124

<sup>67</sup> Stallman, *The GNU Project* (GNU Operating System, 1998) <[www.gnu.org/gnu/thegnuproject.html](http://www.gnu.org/gnu/thegnuproject.html)> accessed 28.08.17.

<sup>68</sup> 'The name GNU was chosen, following a hacker tradition, as a recursive acronym for "GNU's Not Unix".' *Ibid.*

members to ‘give back all extensions they made, so as to help EMACS [a text editor program] improve’.<sup>69</sup> Aware of the shortcomings of informal enforcement following a dispute with a fellow programmer,<sup>70</sup> Stallman recognised that legal mechanisms that had been integral to the proprietisation and commodification of software could be leveraged in service of his own subversive aims.<sup>71</sup> Thus, the exclusivity of copyright coupled with the permissive notion of the ‘licence’ was used to effectively ‘turn copyright on its head’ and subvert the proprietary software trend with the instruments of its own making.<sup>72</sup> This gave rise to the earliest version of the GNU General Public Licence (GPL) and the innovative licensing concept of ‘copyleft’.<sup>73</sup>

Around the same time, similar reactionary developments were taking place in academic institutions across the US leading to the creation of ‘academic’ or ‘permissive’ licences.<sup>74</sup> To ensure that the norms of proprietary culture did not undermine or interfere with the values of academic freedom, institutions such as Berkeley and MIT developed their own licences that promoted extremely broad, less prescriptive alternative to the proprietary model.<sup>75</sup> In many ways, permissive licences effectively amount to a waiver of

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<sup>69</sup> Stallman, *The EMACS Full-Screen Editor* (November 2006) <[www.lysator.liu.se/history/garb/txt/87-1-emacs.txt](http://www.lysator.liu.se/history/garb/txt/87-1-emacs.txt)> accessed 28.08.17; See, Kelty, *Two Bits: The Cultural Significance of Free Software* (Duke University Press, 2008) 187

<sup>70</sup> See Richard M. Stallman, *RMS Lecture at KTH (Sweden)* (30 Oct 1986) <[www.gnu.org/philosophy/stallman-kth.html](http://www.gnu.org/philosophy/stallman-kth.html)> accessed 28.08.17.

<sup>71</sup> *Williams* (n 1) Ch.9

<sup>72</sup> *Ibid*

<sup>73</sup> For discussion on ‘copyleft’, see Section 1.4.5 below.

<sup>74</sup> For discussion on the taxonomy of FOSS licences, see Section 1.4.5 below.

<sup>75</sup> The academic computer science research community grew substantially throughout the 1970s. The results of much of this research were published and shared between researchers. Commercial incentives were ancillary to other incentives (e.g. reputation and tenure). There was also strong adherence to Mertonian norms of scientific research. See, *Samuelson* (n 28) 288

copyright or dedication of the work to the public domain.<sup>76</sup> As such, they embody perhaps the most radical rejection of proprietary norms. However, given that there is no clear mechanism for waiving copyright under US law, these academic institutions had to rely on the ‘licence’ as a means by which the same outcome could be achieved in effect.<sup>77</sup>

#### **[1.4.2] Alternative Vision / Alternative System**

At its core, FOSS represents an alternative vision for the development and use of software. It is a vision of software development and use that views the propertisation and commodification of software as harmful in many respects. As such, the underlying aim of the FOSS licensing model is to effectively remove or mitigate these harms; the irony being that it achieves this through exercising the exclusive rights of copyright. To better understand this alternative vision, it will be useful to briefly examine some of the concerns FOSS advocates expressed over the propertisation and commodification of software.

First of all, it was felt that the rise of the proprietary software model rendered all relations of software production, distribution and use into market relations expressed in quantitative, not qualitative, terms.<sup>78</sup> The monetary transaction, as common denominator of this market relation, transformed not only the relationship between programmers *inter se*, but also the relationship between programmers and end-users.<sup>79</sup> It followed that

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<sup>76</sup> Rosen (n 5) 74

<sup>77</sup> There is no established way of dedicating a work to the public domain under US law. While there have been cases where copyright has been found to be abandoned, they typically involve a failure by the author to comply with a certain formality resulting in the work passing into the public domain. See, Loren, *Building a Reliable Semicommons of Creative Works: Enforcement of Creative Commons Licences and Limited Abandonment of Copyright* (2007) 14 Geo. Mason L. Rev. 271, 319

<sup>78</sup> Wark, *A Hacker Manifesto* (Harvard University Press, 2004) 100

<sup>79</sup> *Ibid*

commodification created the binary relation of ‘producer’ and ‘consumer’, rendering the later with connotations of passivity.<sup>80</sup> Under this view, the ‘consumer’ does not engage with the software, but instead merely ‘points and grunts’ at the screen.<sup>81</sup> This kind of ‘screen essentialism’ hid from the consumer the social relations of the software production, excluding them from participation.<sup>82</sup> The exclusionary effect of propertisation was thus seen to deny users certain freedoms necessary for civil and democratic society (e.g. freedom of speech).<sup>83</sup>

Secondly, propertisation was seen to be detrimental to the process of software development itself. The proprietary model was criticised for encouraging developers to think of software as a discrete product, implying that the process of development had to have some finality to it.<sup>84</sup> Subjecting software development to the singularity of the finished ‘product’ was seen to break down the organic process of iterative development; a process that Richard Sennett referred to as the ‘rhythm between problem solving and problem finding’.<sup>85</sup> This breaking down of the rhythm was seen to be detrimental to the overall

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<sup>80</sup> Creating what Joseph P. Liu would later refer to as the ‘couch potato’ notion of the user; Liu, *Copyright Law’s Theory of the Consumer* in May (ed.) *A Global Political Economy of Intellectual Property Rights: the New Enclosures?* (2<sup>nd</sup> ed., Routledge, 2009)

<sup>81</sup> Worthington & Moglen, *Complete Transcript of ‘The Encryption Wars: An Interview with Eben Moglen* (2000) Issue 1 Winter <[www.cabinetmagazine.org/issues/1/i\\_moglen\\_1.php](http://www.cabinetmagazine.org/issues/1/i_moglen_1.php)> accessed 28.08.17.

<sup>82</sup> Berry, *The Philosophy of Software: Code and Mediation in the Digital Age* (Palgrave MacMillan, 2011) 36; see also, Kirschenbaum, *Mechanisms: New Media and the Forensic Imaginatio* (Cambridge Mass.: MIT Press, 2008)

<sup>83</sup> See generally, Coleman, *CODE IS SPEECH: Legal Tinkering, Expertise, and Protest among Free and Open Source Software Developers* (2009) 24(3) *Cultural Anthropology* 420

<sup>84</sup> See, Sennett, *The Craftsman* (New Haven & London: Yale University Press, 2008) 26; see also, Zhu (n 49) 135 (discussing how legal and quasi-physical discreteness reduces proprietary software to an ‘end-product’)

<sup>85</sup> Sennett (n 84) 9

quality of the software.<sup>86</sup> FOSS advocates argued that software development should be ‘imagined as following a certain rhythm, in which action leads to suspension while results are questioned, after which action resumes in a new form’.<sup>87</sup> By removing proprietary relations, one allowed for a collaborative process of iterative development, where a problem encountered by one developer would be opened up to another ‘with a slightly different perceptual set and analytical toolkit, a different angle on the problem’.<sup>88</sup> Ensuring public access to the underlying source code, it was argued, facilitated a more rigorous process of testing, scrutiny, experimentation resulting in better quality code.<sup>89</sup> It was also considered fundamental to ensuring that programs could interact with one another in a stable and reliable manner.<sup>90</sup>

Thirdly, propertisation was seen to have the effect of reducing all participation in the development of software to purely economic terms. FOSS acknowledges that people engage in software development on terms that are not wholly reducible to economic incentives. Indeed, individuals engage in development for all sorts of reasons, including the self-satisfaction of overcoming a technical challenge, self-improvement (e.g. learning new programming languages or skills), for reputational reasons, or just to be part of a

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<sup>86</sup> This basic notion finds expression in the proprietary context through ‘agile software development’ principles which emphasise how quality is achieved through iterative, incremental and evolutionary development practices. See, *The BSC Glossary of Computing* (n 20) 231

<sup>87</sup> *Sennett* (n 84) 279

<sup>88</sup> Raymond, *The Cathedral and the Bazaar: Musings on Linux and Open Source by an Accidental Revolutionary* (O’Reilly, 1999) 32

<sup>89</sup> Yochai Benkler refers to this alternative model of production as ‘Commons-Based Peer Production’. See, Benkler, *Coase’s Penguin, or, Linux and the Nature of the Firm* (2002) Yale L.J. 112, 369

<sup>90</sup> Interoperability is crucial to the functioning of programs and systems. Programs need to interact with each other, either through data exchange, application interfaces or protocols. Without this ability to interact, software and systems would be unstable and unreliable. By making data formats and interface information open, other developers can use the information to create interoperable software that is reliable and stable, without having to rely on statutory exceptions, reverse engineering or complex techno-legal analysis over scope of protection. See, *Shemtov and Walden* (n 19) 161

community.<sup>91</sup> Perhaps, most importantly, it was acknowledged that participation in the development and use of software could be viewed as a cultural practice.<sup>92</sup> Thus, FOSS sought to provide a space in which individuals and communities could engage in cultural activities without their engagement being reduced to purely proprietary terms.

Finally, many considered the proprietary model of commercial exploitation to be limiting in terms of its commercial potential. FOSS advocates argued that there were other ways to generate economic and commercial value through software that did not involve restricting access to the source code and demanding payment for limited use permissions, e.g. through ancillary products and services for support and maintenance.<sup>93</sup> In this respect, it is important to emphasise that FOSS is not anti-commercial in its aims; a common misconception that many in the FOSS community sought to address through the rebranding of ‘free software’ as ‘open source software’.<sup>94</sup> Instead, FOSS is merely a response to the dominant form of commercial exploitation that relies on copyright, contractual restrictions and technical measures to restrict access.

In summary, FOSS embodies an alternative vision of software exploitation that responds to the perceived harms of proprietisation on many different levels. It seeks to protect and promote those interests that might otherwise be underrepresented or excluded

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<sup>91</sup> For general discussion regarding motivations behind FOSS participation, see Ghosh *et al*, *Free/Libre and Open Source Software: Survey and Study* (University of Maastricht, June 2002) <[www.math.unipd.it/~bellio/FLOSS%20Final%20Report%20-%20Part%204%20-%20Survey%20of%20Developers.pdf](http://www.math.unipd.it/~bellio/FLOSS%20Final%20Report%20-%20Part%204%20-%20Survey%20of%20Developers.pdf)> accessed 28.08.17.

<sup>92</sup> On this point, Moglen writes: ‘it is an emergent property of connected human minds that they create for one another’s pleasure and to conquer their uneasy sense of being too alone’. Moglen, *The DotCommunist Manifesto* (January 2003) <[http://emoglen.law.columbia.edu/my\\_pubs/dcm.html](http://emoglen.law.columbia.edu/my_pubs/dcm.html)> accessed 28.08.17; see also, *Kelty* (n 69)

<sup>93</sup> Vasudeva gives an overview of the various ‘facets of commercialization’. See, *Vasudeva* (n 37) 226-232

<sup>94</sup> See Section 1.4.3

in a legal and regulatory framework built around proprietary norms. To focus on FOSS as a purely legal phenomenon can run the risk of obscuring the other important dimensions to the FOSS movement, e.g. the philosophical, political, technical and cultural dimensions. With that said, FOSS licences play a central role in the story of FOSS because they provide the means by which this alternative vision finds expression in a proprietary legal framework.

### **[1.4.3] Free Software vs. Open Source Software**

This thesis uses FOSS as a term to refer generally to the body of software with its source code made freely accessible and reproducible through a licence; however, it must be noted that ‘*Free Software*’ and ‘*Open Source Software*’ are in fact two rather distinct terms that refer to different things.

#### **[1.4.3.A] Free Software**

To give a very literal definition, Free Software is software that is that is accompanied by a licence that satisfies the Free Software Definition (FSD).<sup>95</sup> The FSD serves as a set of principles laid down by the Free Software Foundation (FSF), an organisation founded by Richard Stallman in 1985 to promote his more ideological narrative of software ‘freedoms’.<sup>96</sup> This set of principles ensures that any licence wishing to claim status as a Free Software licence must guarantee to the licensee four ‘essential freedoms’ which

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<sup>95</sup> Stallman, *What is Free Software?* (FSF) <[www.gnu.org/philosophy/free-sw.en.html](http://www.gnu.org/philosophy/free-sw.en.html)> accessed 28.08.17.

<sup>96</sup> Free Software Foundation, *About*, <[www.fsf.org/about/](http://www.fsf.org/about/)> accessed 28.08.17. For detailed discussion on the political rhetoric of the FSF, see Berry, *Copy, Rip, Burn: The Politics of Copyleft and Open Source* (Pluto, 2008) 154-169

include: (0) the freedom to run the software for any purpose; (1) the freedom to study how the software works and to adapt it to your needs; (2) the freedom to redistribute copies of the software; (3) the freedom to improve the software and distribute your improvements to the public.<sup>97</sup> It is important to note that the term ‘free’, as used in this context, is not intended to denote ‘free of charge’.<sup>98</sup> Indeed, as per the mantra of the free software movement, the licences ensure that the software is ‘free as in “free speech”, not as in “free beer”’.<sup>99</sup>

### [1.4.3.B] Open Source Software

Open source software is that which is accompanied by a licence that satisfies the Open Source Definition (OSD).<sup>100</sup> The OSD was drafted by the Open Source Initiative (OSI), an organisation established in 1998 that sought to reframe ‘free software’ in less ideological terms, refocusing the narrative on development methodology, efficiency and free-market competition.<sup>101</sup> At the time, there was concern that the FSF’s strong anti-proprietary rhetoric had become inseparable from the underlying practice of free software development; a practice which many argued provided certain advantages over the traditional proprietary development process.<sup>102</sup> Whereas the OSD sets out four ‘essential

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<sup>97</sup> Stallman (n 95)

<sup>98</sup> Stallman (n 64) 121

<sup>99</sup> Stallman (n 121)

<sup>100</sup> Open Source Initiative, *The Open Source Definition (Annotated)* (Version 1.9) <<http://opensource.org/osd-annotated>> accessed 28.08.17. The OSI established its own *Licence Review Process* as a means of providing certification for the mark ‘open source.’

<sup>101</sup> Berry describes the OSD as embodying a political discourse of ‘technical efficiency and neoliberalism’. Berry (n 96) 169

<sup>102</sup> This view was popularised at the time by Eric Raymond’s famous essay *The Cathedral and the Bazaar*; See, Raymond (n 88). It was also championed by Bruce Perens, the founder of the OSI; see Perens, *The Open Source Definition* in DiBona, Ockman, Stone, *Opensources: Voices from the Open Source*

freedoms’, the OSD sets out ten criteria.<sup>103</sup> These ten criteria are notably more detailed and specific than the FSD counterparts, although they are fairly similar in terms of substance.<sup>104</sup> Indeed, most licences that satisfy the OSD also satisfy the FSD.

#### **[1.4.4] FOSS Licence Characteristics**

There are around 70 different licences that are recognised as being free software licences and/or open source licences.<sup>105</sup> While there are many differences between each of them (see below for general taxonomy), there are certain characteristics of the licences that are generally universal. Having an appreciation of these characteristics is vital to understanding the challenges that FOSS licences face with respect to enforcement in national courts. They are as follows: (i) FOSS licences are drafted as *fixed templates*, (ii) most are drafted as *international* licences, and (iii) all are relatively *open-textured* in nature. This section will briefly expand upon each of these characteristics.

##### **[1.4.4.A] Fixed Templates**

The textual document that is the FOS licence only takes on legal significance when it is attached to a piece of software and forms the basis of a legal relationship between a licensor and licensee. Prior to being affixed to a piece of software, the FOSS licence is merely a

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*Revolution* (O’Reily, 1999) <[www.oreilly.com/openbook/opensources/book/perens.html](http://www.oreilly.com/openbook/opensources/book/perens.html)> accessed 28.08.17.

<sup>103</sup> *Open Source Definition* (n 100)

<sup>104</sup> ‘Need for correct nomenclature distinction only arises when the licenses are being critically analysed. Otherwise, essentially, the software, technology, developers, and licence structures are similar; only the attitude and the propaganda differs’. *Vasudeva* (n 37) 25. For critical analysis of the two definitions, see *Berry* (n 96) Ch.5

<sup>105</sup> OSI website <<http://opensource.org/licenses/alphabetical>>

template for a legal relationship in the abstract. The textual document does not identify specific parties to the legal relationship, nor does it refer to specific works. Instead, the drafter uses fixed terms and definitions (e.g. ‘Licensor’, ‘You’, ‘Contributor’, ‘this Program’, ‘Covered Code’) to ensure that the template can be applied by anyone to any piece of software. Of course, these drafting techniques are not unique to FOSS licences templates. Indeed, the standardisation of terms and conditions to produce what are known as ‘boilerplate’ or ‘adhesion’ contracts is endemic to an economic system reliant upon mass production and distribution.<sup>106</sup> There is, however, one notable difference between FOSS licence templates and conventional boilerplate; namely, FOSS templates are often drafted by an entity or individual who is not party to, or acting on behalf of a party to, the legal relationship that the template will govern in practice.<sup>107</sup> Thus, while a right-holder may exercise discretion in choosing which template to apply, there is generally no scope for them to amend the terms found in the template.<sup>108</sup> Indeed, the terms are immutable and non-negotiable for *both* parties, expressly forbidding any alterations or amendments to the textual document itself.<sup>109</sup> While this notion of a fixed template is relatively novel in the

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<sup>106</sup> See generally, Radin, *Boilerplate: The Fine Print, Vanishing Rights, and the Rule of Law* (Princeton University Press, 2013); see also, Kim (n 56)

<sup>107</sup> There are several licences that have been drafted by entities or organisations that end up applying the template to code for which that organisation is the right-holder. Often this code is assigned to the organisation through contributory licence agreements (CLAs), fiduciary licence agreements (FLAs) or vests in the entity through the ‘work-for-hire’ doctrine. In the early 2000s, it became popular for companies to draft their own so-called ‘vanity licence’ instead of adopting a pre-existing template. This led to a proliferation of FOSS licences, raising concerns over compatibility and subsequently prompting an initiative to decommission many vanity licences. See, Gomulkiewicz, *Open Source Licence Proliferation: Helpful Diversity or Hopeless Confusion?* (2009) 30 Wash. U. J. L. & Pol’y 261

<sup>108</sup> Some licences expressly allow for additional terms to be applied in conjunction with the template, providing some degree of variability in the template, see e.g. the GNU GPL Version 3, Sec. 7

<sup>109</sup> It may be argued that amendments or alterations to the licence might constitute the creation of unauthorised derivative work resulting in copyright infringement. For example, the FSF explicitly claim copyright in the GPL licence templates and state that ‘changing is not allowed’. See, GPLv3. This raises an interesting question over the scope and strength of copyright in a legal document. Greg Vetter considers in a rhetorical manner whether the use of the GPL template might also be protected by a business method patent; See, Vetter, *Claiming Copyleft in Open Source Software: What if the Free Software Foundation’s General Public Licence (GPL) had been Patented?* (2008) Mich. St. L. Rev. 279

software context, it is used in other situations, particularly where standardisation across an industry or sector is sought; e.g. construction contracts, tenancy agreements, and best practice/model contracts.

#### **[1.4.4.B] Internationalised**

Most FOSS licences are drafted in such a way as to ensure that they are legally effective in all jurisdictions, notwithstanding divergences in national laws. To achieve this, FOSS licence drafters employ several techniques to ensure that the licences have an ‘international’ character.<sup>110</sup> One technique is to use terminology that is generic and jurisdiction-neutral, substituting terms that have specific legal meaning within a domestic setting with artificial terms to ‘avoid any hasting association with national categories’.<sup>111</sup> For example, the GPL uses the term ‘conveyance’ to avoid terms such as ‘distribution’ or ‘making available’ both of which have specific legal definitions under domestic law.<sup>112</sup> Some licences instead employ terminology that closely aligns with that found in international treaties.<sup>113</sup> In addition, to further this strategy of internationalisation, most

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<sup>110</sup> For an insight into the thinking behind such drafting techniques, see Johns, *Opinion on Denationalization of Terminology* (FSF, 3 August 2006) <<http://gplv3.fsf.org/denationalization-dd2.html>> accessed 28.08.17.

<sup>111</sup> Metzger, *Internationalisation of FOSS Contributory Copyright Assignments and Licenses: Jurisdiction-Specific or “Unported”?* (2013) 10:2 *SCRIPTed* 177.

<sup>112</sup> See, *GPL3 Process Definition* (FSF, 15 January 2006) <<http://gplv3.fsf.org/gpl3-process.pdf>> accessed 28.08.17 (setting out the strategy of internationalisation).

<sup>113</sup> Although not technically FOSS licences, the Creative Commons International Licences are drafted using the terminology of the WIPO copyright treaties (e.g. Berne, WTT, WPPT). See, Section 8(f) of the Creative Commons Attribution-ShareAlike Unported 3.0.

FOSS licence drafters opt not to include an express choice-of-law clauses in their licences, favouring the application of private international law principles instead.<sup>114</sup>

The rationale behind this strategy of internationalisation is clear. It allows individuals and entities from any jurisdiction in the world to participate in the development and use of FOSS notwithstanding variations in national law.<sup>115</sup> It ensures that the intrinsically global practice of FOSS production and the relations of global FOSS communities are not disrupted by national borders or legal traditions. It seeks to render the fixed template truly universal in terms of its geographical application. Of course, there are several criticisms that may be levelled against this strategy of internationalisation, not to mention questions over whether the strategy produces licences that are legally enforceable in domestic courts.<sup>116</sup> On this latter point, there is a concern that attempts to create licence templates that are enforceable in every jurisdiction may render them enforceable in none. This is a concern that underpins and informs one of the central questions in this thesis: namely, how do German and US courts interpret and enforce international FOSS licences in accordance with domestic law and what effects does this process of domestic implementation have on the broader framework on copyright licensing? In this respect, the international character of the licence plays a key role in shaping the inquiry and should be not be understated in terms of its importance.

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<sup>114</sup> Metzger (n 111). See also, Metzger, *Transnational Law for Transnational Communities: The Emergence of a Lex Mercatoria (or Lex Informatica) for International Creative Communities* (2012) 3 JIPITEC 361-368.

<sup>115</sup> See, Meeker, *Only in America? Copyright Law Key to Global Free Software Model* (Linuxinsider, 16 May 2004) <[www.linuxinsider.com/story/50421.html](http://www.linuxinsider.com/story/50421.html)> accessed 28.08.17

<sup>116</sup> For a critical response to this strategy, see Hardie, *Change of the Century: Free Software and the Positive Possibility* (2006) Mute Vol.2, No.1

Finally, it is worth noting that there are several jurisdiction-specific FOSS licences that have been drafted over the years are tailored to reflect local nuances in law and language.<sup>117</sup> These licences do not, however, represent a large percentage of FOSS licences in use globally.<sup>118</sup> It is also worth noting that despite the strategy of internationalisation, FOSS licences retain a strong US-centric character given that many were drafted by US lawyers and are heavily influenced by US copyright jurisprudence and liberal philosophy.<sup>119</sup> Indeed, the very concept of a ‘licence’ has its roots in common law and often struggles to find direct equivalence in certain jurisdictions.<sup>120</sup>

#### [1.4.4.C] Open-Textured

In the present context, the term ‘open textured’ is used to refer to terminology or concepts that are intentionally ambiguous so as to be open to interpretive debate within a community.<sup>121</sup> FOSS licence templates routinely adopt terms and concepts that are somewhat artificial and ambiguous, not only to avoid associations with national legal systems, but also to provide a degree of flexibility for licence templates in the face of changing technologies, commercial practices and customary norms. By adopting terms that are open-textured, the template becomes a ‘platform for ongoing negotiation’ and the community is able to

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<sup>117</sup> *Metzger* (n 10) 12 ff.

<sup>118</sup> *Ibid*

<sup>119</sup> The licences embody a strong Jeffersonian conception of copyright and notions of freedom that spring from the same US constitutional heritage. Equally, the discourse behind ‘open source’ is built on US values of libertarianism and neo-liberalism. See, *Berry* (n 96) 155-170

<sup>120</sup> On the common law concept of the ‘licence’ and its application in the copyright context, see Newman, *A Licence is Not ‘A Contract Not to Sue’: Disentangling Property and Contract in Law of Copyright Licences* (2012) 98 *Iowa L. Rev.* 1101

<sup>121</sup> The term ‘open texture’ is more commonly used in jurisprudential context in relation to language, rules and rule application. See, Bix, *Law, Language and Legal Determinacy* (Clarendon, 1993) 7. The present usage does not

determine the scope and effect of certain provisions through dialogue and practice.<sup>122</sup> This allows for informal customs or social norms to find legal expression without ossifying those customs and norms in a time-bound snapshot.<sup>123</sup> For example, the GPLv2 uses the notion of a ‘work based on the program’ to delineate the scope of the copyleft obligation,<sup>124</sup> explicitly rejecting more precise legal terms such as ‘derivative work’ and allowing for the community to engage in interpretive debate over the intended scope of copyleft.<sup>125</sup>

### **[1.4.5] Taxonomy of FOSS Licences**

Over the years, several taxonomic determinations have been made with the aim of delineating the various species of FOSS licence.<sup>126</sup> The consensus is that FOSS licences generally fall into one of two categories: ‘permissive’ or ‘restrictive’ licences. The distinction between these two categories is dictated by the extent to which the licence terms restrict the licensee when distributing the software or a modified version thereof.

As the name suggests, permissive licences are those which impose limited or virtually non-existent restrictions on a licensee’s permission to distribute the work or a modified version. They are sometimes referred to as ‘academic’ licences because they were

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<sup>122</sup> See, Zhu’s discussion on the constitutional character of FOSS licences that can be understood through the lens of relational contract theory; *Zhu* (n 49) 175

<sup>123</sup> *Ibid* 173-178

<sup>124</sup> On ‘copyleft’ obligations, see below text at fn.132

<sup>125</sup> For an example of how communities of FOSS lawyers and developers engage in ongoing debates over open textured licence terms, see Bain, *Software Interactions and the GNU General Public License* (2010) IFOSS L. Rev. Vol.2, No.2, 165. Another example of the community developing its own norms and interpretations of licence obligations is the ‘normal systems call’ exception to the GPL introduced by Linus Torvalds (the engineer best known for developing the Linux kernel). For more on this exception and how it was read into the GPL, see Vetter, *‘Infectious’ Open Source Software: Spreading Incentives or Promoting Resistance?* (2004) 36 Rutgers L. J. 53, 113-118

<sup>126</sup> See, McDonagh, *Copyright, Contract and FOSS in Shemtov & Walden* (n 19). See also, *Vasudeva* (n 37) 51, fn. 17

drafted and used by academic institutions in the early days of FOSS.<sup>127</sup> In terms of philosophy and structure, permissive licences ensure that licensees can freely use, modify and distribute the software for any purpose whatsoever, including the creation of closed proprietary software. They do not impose a copyleft of reciprocal obligation on the licensee.<sup>128</sup> As such, permissive licences embody a less prescriptive vision of software freedom in contrast to restrictive licences like the GPL suite of licences. This often makes them more attractive to those who may wish to incorporate FOSS into their own software without having to release their source code to the public. Permissive licences do, however, tend to impose minimal restrictions on use and distribution, e.g. affixation of notice, maintenance of disclaimers and limitations, and so forth. Some notable permissive licences include the Apache licence,<sup>129</sup> the BSD licences,<sup>130</sup> and the MIT licence.<sup>131</sup>

By contrast, restrictive licences are those that impose restrictions on licensees' ability to distribute the software and modified versions thereof. These restrictions typically require the licensee to disclose the source code for any distributions of the work, whether modified or otherwise, subject to the same licence or similar licence terms. This prescriptive notion of reciprocity ensures that any improvements or modifications made by the licensee are licensed back to the public and made freely available to others in the same way that the initial code was made accessible to the licensee. As a legal concept, this is commonly referred to as 'copyleft' – a term initially popularised by Richard Stallman.<sup>132</sup>

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<sup>127</sup> See Section 1.4.1.

<sup>128</sup> See immediately below.

<sup>129</sup> *Apache License, Version 2.0*, <[www.apache.org/licenses/LICENSE-2.0](http://www.apache.org/licenses/LICENSE-2.0)> accessed 28.08.17.

<sup>130</sup> The BSD licences are a family of licences (i.e. 4-Clause, 3-Clause, 2-Clause). See, Open Source Initiative, *BSD 2-Clause License*, <<https://opensource.org/licenses/bsd-license.php>>

<sup>131</sup> Open Source Initiative, *MIT License*, <<https://opensource.org/licenses/MIT>>

<sup>132</sup> *Stallman* (n 67)

Indeed, restrictive licences are often referred to as ‘copyleft’ or ‘reciprocal’ licences for this reason.<sup>133</sup>

Within the broader genus of restrictive licences, there is a further taxonomical distinction made between ‘strong’ and ‘weak’ restrictive licences.<sup>134</sup> In this context, the strength of a restrictive licence is determined by the scope of the reciprocity obligation. For example, the GPLv2 is considered a ‘strong’ restrictive licence because its copyleft provision states that any work distributed by the licensee, ‘that in whole or in part contains or is derived from the [initial program] or any part thereof, must be licensed as a whole’ under the same licence.<sup>135</sup> As such, the restriction attempts to capture as much of the licensee’s derivative material within the scope of the copyleft obligation, requiring that the relevant source code to that material be released under the same licence.<sup>136</sup> Some commentators<sup>137</sup> argue that the scope of ‘strong’ reciprocal restrictions may be so broad that they capture material beyond what might be considered a ‘derivative work’ under

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<sup>133</sup> They are also sometimes referred to as ‘viral’ or ‘infectious’ licences, although such metaphors are typically used in a pejorative sense to convey negative connotations of risk. See, Vetter (n 125) fn.9

<sup>134</sup> See, *McDonagh* (n 126) 72

<sup>135</sup> Section 2(b), GPLv2. It is important to note that the Section contains an exception for the ‘mere aggregation’ of works on a volume of storage or medium.

<sup>136</sup> In addressing the issue of scope, one needs a clear understanding of techno-legal terms such as ‘modification’, ‘derivative’, ‘aggregation’, ‘compilation’ and ‘collective work’ and how these apply in relation to software. For an overview of these terms, see *Vasudeva* (n 37) 95-122

<sup>137</sup> See generally, *Vetter* (n 125)

domestic copyright law,<sup>138</sup> including works which link to the covered program through static and dynamic links.<sup>139</sup>

By contrast, weak restrictive licences have copyleft obligations that are comparatively narrow in terms of their scope. Some contain express exceptions that allow for certain types of derivative material to be distributed by the licensee under a different licence. For example, the Mozilla Public Licence (MPL) is considered a weak restrictive licence because it states that when the licensed code or portions thereof are combined with code not governed by the terms to form a ‘larger work’, then it is only the licensed code and not the other parts of the larger work that must be released under the same licence.<sup>140</sup> This means that the other code, including works that statically or dynamically link to the licensed code, may be released under a different licence, including a proprietary licence.<sup>141</sup> The rationale behind ‘weak’ restrictive licences is that they refine copyleft in light of the complex functioning and interaction of computer programs, in turn reducing fears that any contact with FOSS, even through routine operation of the technology, will ‘infect’ proprietary code and force the right-holder to disclose the corresponding source.<sup>142</sup> In this respect, weak restrictive licences are often tasked with playing an important role in facilitating the functioning and interaction of elements of a larger system under FOSS, e.g. libraries or kernel modules.

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<sup>138</sup> The term ‘derivative work’ does not have a universal meaning. Accordingly, it is subject to jurisdiction-specific analysis. See, *McDonagh* (n 126) 75

<sup>139</sup> For discussion on distinction between static and dynamic linking, see EU Commission, *EUPL Compatible Open Source Licences* (Updated 2013) <<https://joinup.ec.europa.eu/software/page/eupl/eupl-compatible-open-source-licences#section-3>> accessed 28.08.17.

<sup>140</sup> *Mozilla Public License v.2.0*, <[www.mozilla.org/en-US/MPL/2.0/](http://www.mozilla.org/en-US/MPL/2.0/)> accessed 28.08.17. [Hereafter MPLv2]

<sup>141</sup> See, Section 3.3. MPLv2

<sup>142</sup> *Vasudeva* (n 37) 94

## **[1.5] Chapter Summary**

In summary, FOSS can be understood as a direct, reactionary response to the propertisation of software and the perceived harms of proprietary exploitation. In this regard, this chapter has highlighted the dialectical relationship between FOSS and proprietary software. It has shown how FOSS embodies a qualitative shift away from the dominant mode of proprietary exploitation, albeit a shift that relies upon – and is sustained by – a system of property rights. Through its taxonomical treatment of FOSS licences, the chapter has also provided much needed introduction to some basic concepts on FOSS. Having established an appreciation for the historical and ideological context in which FOSS is situated, we may now turn to examine the FOSS licence templates proper.

## Chapter 2: FOSS Licence Templates – Objectives and Mechanisms

### [2.0] Introduction:

FOSS licence templates act as the legal machinery of the FOSS movement. When attached to a piece of software, the templates transform the code from its default status as proprietary ‘*res*’ to something that is ‘open’ and ‘free’.<sup>143</sup> This chapter begins the substantive inquiry of the thesis by examining FOSS licence templates as textual artefacts and identifying the teleological objectives embodied therein. It shows that all FOSS licence templates share certain core objectives. The chapter then gives a brief overview of some general mechanisms employed in FOSS licence templates, highlighting an important link between the teleological objectives and those functional mechanisms. Finally, a considerable proportion of the chapter is devoted to examining the specific enforcement objectives of FOSS licence templates. As distinct from the teleological objectives, these objectives relate specifically to legal enforcement and remedies. Overall, it will be shown how these specific enforcement objectives are fundamentally shaped by – and give effect to – the overarching teleological objectives of the licence templates.

Before proceeding, it is important to note that these terms – e.g. objectives and mechanisms – are by no means intended to serve as robust analytical categories. Instead, they merely provide a rough framework with which we can deconstruct the layered intentions of FOSS licence drafters as expressed through the templates. It is only with a detailed understanding of how the ideational and functional aspects of the templates interact that we can begin to address the questions of whether and to what extent those templates have been validly enforced in accordance with domestic laws. Indeed, if a

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<sup>143</sup> *Rahmatian* (n 9) 4

national court were to enforce the terms of a FOSS licence template, but in doing so failed to give effect to the teleological objectives embodied therein, then it would be enforcement that is limited in practical terms.

## **[2.1] Teleological Objectives**

At their core, all FOSS licence templates have the objective of making the code to which they are attached ‘free’ and/or ‘open source’. Indeed, for any template to be considered a FOSS licence, it must, by definition, be shown that this core objective is upheld.<sup>144</sup> This raises the following question: what exactly is meant by the terms ‘free’ and ‘open source’ as they apply to software? This section will examine these terms and discuss how it is that they are expressed as objectives in FOSS licence templates. It is important to clarify that these licence objectives are distinct from the motivations for why one might want to pursue the objectives of making software ‘free’ or ‘open’.<sup>145</sup>

### **[2.1.1] Free Software**

Freedom is a rather vague and abstract concept. In many ways, the term is a floating signifier; a blank canvas onto which an observer can project almost any value or meaning.<sup>146</sup> However, in so far as the term has been applied to software, it has been given

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<sup>144</sup> A licence template cannot be considered a ‘Free Software’ licence or ‘Open Source’ licence if it does not meet the criteria of the FSD or OSD. See Section 1.4.3 above. Thus, FOSS licence templates must, by definition, secure the objectives as expressed in the respective definition.

<sup>145</sup> The previous chapter covered some of the motivations behind why software developers make software that is ‘free’ and/or ‘open source’. For example, developers may be motivated for ideological reasons or alternatively for commercial or technical reasons. See Section 1.4.1 above.

<sup>146</sup> The term ‘floating signifier’ is borrowed from the field of semiotics; i.e. something used ‘to represent an undetermined quantity of signification, in itself void of meaning and thus apt to receive any meanin’. See, Lévi-Strauss, *Introduction to Marcel Mauss* (transl. Baker, London: Routledge, 1987) 63 ff.

practical and concrete expression through the Free Software Definition (FSD).<sup>147</sup> Thus, in saying that FOSS licence templates have the overarching objective of making software ‘free’, one is essentially just saying that the templates have the objective of ensuring that licensees can exercise the four ‘essential freedoms’ in relation to the piece of software to which the template is attached.<sup>148</sup>

These essential freedoms are very broad in nature, providing significant scope for divergence in implementation. However, to satisfy the FSD, a licence template must, at the very least, ensure that binary code can be run for whatever purpose; that the source code is freely accessible; that the licensee can modify the source code; that the licensee can make copies of the binary code and/or source code, either with or without modifications, and distribute those copies to anyone; and that no additional restrictions can be imposed on licensee that conflict with the central freedoms.<sup>149</sup> Thus, the four essential freedoms are primarily concerned with ensuring that licensees have both the necessary physical access and accompanying legal permissions to freely perform acts in relation to source code that would otherwise be prohibited due to the technical nature of software and its treatment under copyright law.<sup>150</sup> Given this, free software licence templates often ensure that the granting clause is sufficiently broad so as to confer upon the licensee the relevant legal permissions needed to exercise their essential freedoms.<sup>151</sup> Certainly, a general review of

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<sup>147</sup> David M. Berry further elaborates on this construction of freedom and its role within a broader discourse of the Free Software Movement. See, *Berry* (n 96) 154-169

<sup>148</sup> For the four ‘essential freedoms’ in the FSD, see above (n 95)

<sup>149</sup> *Ibid*

<sup>150</sup> See Section 1.2 above.

<sup>151</sup> See, Vasudeva, *The Granting Clause and Intellectual Property Rights Management in Open-Source Software Licensing* (2013) IP Theory Vol.3(2) 167

free software licence templates reveals that all share in a common a broad granting clause.<sup>152</sup>

There are, of course, notable variations in terms of how different licence templates pursue the objective of making software ‘free’. In this respect, some licence templates embody a more prescriptive approach, relying on restrictive terms as a means by which to ensure the ‘essential freedoms’ continue to persist notwithstanding attempts at privatisation. Despite what one might assume, there is nothing in the FSD that explicitly forbids a licence template from imposing restrictions. Indeed, if restrictions were forbidden as a rule, then many of the ‘restrictive’ FOSS licence would not be recognised as FSD-compliant. As explained by Richard Stallman, free software licences may impose restrictions on licensees provided that those restrictions *do not conflict with the essential freedoms*.<sup>153</sup> As will be shown below, there are many types of restrictions that FOSS licence templates may employ in furthering the teleological objective of promoting and protecting free software. Indeed, there are various restrictive mechanisms that are employed to ensure that source code remains accessible, that the permissions to copy, modify and distribute the binary and source code are unfettered, and that certain forms of conduct are encouraged or discouraged depending on whether they facilitate or undermine the practices of free software development.<sup>154</sup> An even more aggressive line of reasoning asserts that restrictions can serve to propagate or spread software ‘freedoms’ to other code that is non-

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<sup>152</sup> *Ibid*

<sup>153</sup> Stallman, *The Free Software Definition* in *Gay* (n 64) 44 (‘Certain kinds of rules about the manner of distributing free software are acceptable, when they don’t conflict with the central freedoms.’)

<sup>154</sup> Free software licence restrictions are routinely justified on the basis that they promote the essential freedoms: e.g. ‘[t]he positive freedoms granted in FOSS licences are protected by corresponding restrictions which preserve the same freedoms for the developers and all users’. Ravicher, *Brief of Amicus Curiae Software Freedom Law Centre in Support of Appellant Robert Jacobsen* (June 15, 2009) <[https://wiki.creativecommons.org/images/7/7c/Jacobson\\_v\\_katzer\\_cc\\_brief.pdf](https://wiki.creativecommons.org/images/7/7c/Jacobson_v_katzer_cc_brief.pdf)> accessed 28.08.17.

free; i.e. restrictions that require that the distribution of derivative works to be made under the same licence (or at least the same terms), thus ensuring that software freedoms spread with each new derivative work created.<sup>155</sup>

Thus, far from being abstract and esoteric in nature, the objective of making software ‘free’ is very a clear and tangible objective that is pursued through all aspects of the licence templates, from the granting clause to the restrictions and through various other mechanisms (see below).

### **[2.1.2] Open Source**

The term ‘open’ – while similarly vague in the abstract – has also acquired a specific meaning in so far as it applies to software. As discussed in the previous chapter, software is comprised of both source code and binary code.<sup>156</sup> When the underlying source code of a program is made accessible and readable by the licensees, we may refer to the source as being ‘open’. This, however, reflects a rather colloquial understanding of ‘open source’ software. A more robust legal definition of what it means for software to be ‘open source’ is set out in the Open Source Definition (OSD).<sup>157</sup> Like the FSD, the OSD sets out various criteria that must be satisfied for a licence template to be considered open source compliant.<sup>158</sup> As already noted, the OSD and the FSD are almost identical in terms of the

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<sup>155</sup> See generally, *Vetter* (n 125) (discussing how ‘an infectious license contemplates extending its terms to other software that is intermixed or coupled with open source software’.)

<sup>156</sup> See Section 1.1 above

<sup>157</sup> See *OSD* (n 100)

<sup>158</sup> The headings of the criteria are as follows: (1) Free Redistribution; (2) Source Code; (3) Derived Works; (4) Integrity of Author’s Source Code; (5) No Discrimination Against Persons or Groups; (6) No Discrimination Against Fields of Endeavor; (7) Distribution of License; (8) Licence Must not be Specific to a Product; (9) Licence Must Not Restrict Other Software; (10) Licence Must be Technology-Neutral. *Ibid*

criteria that each sets out. The key point of differentiation between the two lies in their framing of substantively similar – if not identical – objectives. Whereas the FSD frames these objectives as part of its ‘software freedom’ narrative, the OSD presents a more commercially-oriented vision of licensing.<sup>159</sup> Thus, instead of requiring that code remains ‘free’ (a label that can be construed as having anti-commercial connotations), the OSD stipulates that licences must ensure the source code of a program is ‘open’ so that it may be studied, modified, and improved upon through an iterative and collaborative process of development. This narrative shift does not have any effect on the objectives that OSD-compliant licences pursue. Thus, the teleological objective of making software ‘open source’ through a licence template is substantively identical to that of making software ‘free’.

## **[2.2] Mechanisms**

Having set out the teleological objectives, we may now turn to consider the more functional dimensions of FOSS licence templates. This section examines general categories of licence provisions found in FOSS licence templates that serve as mechanisms for furthering the teleological objectives of the templates. As will be shown, these mechanisms play an important role in linking the ideational and functional aspects of the licence templates. While the categories are non-exhaustive, they nevertheless aim to give a relatively comprehensive overview of the various functional considerations behind FOSS template provisions.

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<sup>159</sup> *Berry* (n 96) 169-179

### [2.2.1] Attribution and Notice Provisions

Most FOSS licence templates have provisions that require the documentation and preservation of certain information relating to the code. These typically take the form of licence restrictions requiring the maintenance or insertion of various *notices*. At the most basic level, all FOSS licence templates require licensees to keep intact the relevant copyright notices.<sup>160</sup> This serves a primary function in terms of asserting copyright in the work, but it can also be seen to play a range of ancillary functions. Most notably, by requiring the licensee to keep intact or preserve the relevant copyright notices, licences can ensure that an author receives proper *attribution* for their contributions.<sup>161</sup> This attribution function of the licences plays an important role in the incentive structure of FOSS development, encouraging developers to contribute to FOSS in return for reputational gains.<sup>162</sup> Furthermore, by preserving copyright notices, downstream licensees are able to more readily identify the relevant right-holders in the work should they wish to discuss

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<sup>160</sup> Even the most permissive licences require copyright notices to be maintained. For insight on preservation of notices for FOSS projects, see *Managing Copyright Information Within a Free Software Project* (SFLC, 2012) <<https://softwarefreedom.org/resources/2012/ManagingCopyrightInformation.html>> accessed 28.08.17; see also *Maintaining Permissive-Licensed Files in a GPL-Licensed Project: Guidelines for Developers* (SFLC, 2007) <[www.softwarefreedom.org/resources/2007/gpl-non-gpl-collaboration.html](http://www.softwarefreedom.org/resources/2007/gpl-non-gpl-collaboration.html)> accessed 28.08.17.

<sup>161</sup> Attribution is well-established legal concept in jurisdictions which follow the '*droit d'auteur*' tradition. Many civil law countries recognise the authors' moral right of paternity which encompasses the right to claim authorship in a work. However, there is uncertainty as to whether such a right exists in relation to computer programs given their functional character. The United States does not recognise a general right of attribution for authors. See generally, Adeney, *The Moral Rights of Authors and Performers: An International and Comparative Analysis* (OUP, 2006). See also, Vetter, *The Collaborative Integrity of Open Source Software* (2004) Utah. L. Rev. 564 (discussing how FOSS licences try to emulate the civilian tradition of moral rights).

<sup>162</sup> For discussion on reputational incentive structure, see, Lakhani and Wolf, *Why Hackers Do What They Do Understanding Motivation and Effort in Free/Open Source Software Projects* in Feller, Hissam, Lakhaani (eds.) *Perspective on Free and Open Source Software* (Cambridge, Mass.: MIT Press, 2005) 13-14; see generally, Raymond (n 88); Raymond, *Homesteading the Noosphere* (2002) <[www.catb.org/~esr/writings/homesteading/homesteading/](http://www.catb.org/~esr/writings/homesteading/homesteading/)> accessed 28.08.17; Zhu (n 49) 196-200; Fisk, *Credit Where It's Due: The law and Norms of Attribution* (2006) 95 Geo. LJ 49

either technical issues relating to the code or legal issues relating to permissions for re-use. In this respect, the notice provisions act as an important mechanism by which licensors and licensees are incentivised and assisted in creating software that ‘free’ and ‘open source’.

Many FOSS licence templates also have provisions requiring licensees to insert and maintain notices that detail where, when and by whom modifications have been made to the original code.<sup>163</sup> Some commentators have suggested that these notice requirements can be seen to function in much the same way as an author’s moral right of integrity by ensuring that alterations to the work are not incorrectly attributed to the author.<sup>164</sup> In addition, they serve the more practical function of allowing downstream licensees to trace the provenance of certain parts of the code, in turn lowering information costs and assisting in the collaborative development process.<sup>165</sup>

It is also the case that most templates have a provision requiring licensees to maintain notices setting out disclaimers of warranties and limitations of liability. As will be discussed further below, FOSS templates are often drafted to disclaim all implied warranties and to limit all liability for damages to the extent permitted by law.<sup>166</sup> In terms of notice requirements, therefore, the preservation of all legal disclaimers and limitations is fundamental to ensuring that downstream users are aware of the allocation of risk.

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<sup>163</sup> E.g. Section 5(a) GPLv3 (‘The work must carry prominent notices stating that you modified it, and giving a relevant date’).

<sup>164</sup> See *Vetter* (n 161); *Shemtov & Walden* (n 19) 10-15

<sup>165</sup> Over the past few decades, there has been an increased focus on creating technical solutions to the challenges of documenting authorship and contributions to projects. While copyright notices on code still play a key role, the use of ‘version control’ or ‘revision control systems’ provides an effective solution for managing and documenting modifications made to code. See, *The BSC Glossary of Computing* (n 20) 239

<sup>166</sup> See Section 2.2.3 below

Finally, FOSS licences may sometimes have provisions that detail how these various notices (i.e. copyright notices, modification notices, disclaimer notices etc.) are to be presented to downstream recipients. These terms make sure that the relevant notices are easily locatable and accessible notwithstanding the technical challenges presented by certain media.<sup>167</sup> For example, some licences require notices for a larger work made up of many contributions to be collected in a single location, e.g. in a file named ‘COPYRIGHT’ or ‘NOTICES’.<sup>168</sup> Some licences require the notice to be provided in a written offer accompanying a physical product.<sup>169</sup> Others, like the GPLv2 for example, require notices to be presented to the recipient through an interactive interface, but only if that program ‘normally reads commands interactively’.<sup>170</sup> Indeed, these types of notice requirements are never absolute, but are conditional on the software supporting the required functionality to meet them. This ensures that the licences comply with the OSD’s criterion of technological neutrality.<sup>171</sup>

Overall, the notice provisions act as an important mechanism by which information vital to the ongoing process of FOSS production and use is preserved and conveyed in the

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<sup>167</sup> This ensures that the licensee has sufficient notice of the terms. This can play an important role vis-a-vis contractual formation, i.e. notice and incorporation of terms.

<sup>168</sup> This requirement is a formal expression of an established practice within some FOSS projects and the FOSS community. The alternative approach adopted by some is to go for a ‘file-by-file’ method whereby the notice is presented in a header to each individual file. See, *SFLC* (n 160) (‘Though the file-by-file method was widely adopted in the free software community during the past two decades, it is not an ideal method, because ensuring that notices remain correct imposes a heavy burden of individual file change tracking. We recommend that project leaders begin to reconsider the file-by-file approach, as it is error-prone and can lead to inadvertent copyright infringement and improper attribution.’)

<sup>169</sup> For example, if the work is distributed as binary-only format embedded in a physical product, then the notices may have to be provided in the accompanying written materials. See, e.g. Section 6(b) GPLv3.

<sup>170</sup> See, Section 2(c) GPLv2; Section 4(4) Apache 2.0.

<sup>171</sup> 10. ‘License Must be Technology Neutral’, *OSD* (n 100)

system. As such, it aligns with and promotes the teleological objectives of the licence templates.

### **[2.2.2] Provisions Dealing with Other Intellectual Property Rights**

While FOSS licence templates are primarily concerned with copyright in software, other intellectual property rights invariably come into play in the FOSS context.<sup>172</sup> This has encouraged many FOSS licence drafters to include provisions in their licences that deal directly with patents, trademarks and any other intellectual property rights that may be held either by the licensor, licensee or a third-party. Typically, these provisions serve to remove any friction between these rights and licensees' ability to enjoy their open source 'rights' or 'essential freedoms'. In particular, the growth in the number of software patents granted in the last fifteen years – particularly in the United States<sup>173</sup> – has presented a serious threat to the functioning of the FOSS licensing model which drafters have increasingly sought to counter through preventative mechanisms in the licence templates.<sup>174</sup> These mechanisms typically take the form of the following licence provisions: explicit patent and trademark grants,<sup>175</sup> non-assertion covenants,<sup>176</sup> peace and retaliation clauses,<sup>177</sup> and 'liberty-or-

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<sup>172</sup> Software attracts protection under both copyright and patent law regimes, see generally, Section 1.2 above. Trade marks can also play a significant role in the FOSS ecosystem. See generally, Shemtov, *Trade Marks and FOSS* in *Shemtov & Walden* (n 19) 109-140

<sup>173</sup> However, this trend has since reversed somewhat since the Supreme Court's decision in *Alice Corp. v. CLS Bank International* (n 62)

<sup>174</sup> For more on 'structural preventative measures', see Bain *Patents and FOSS* in *Shemtov & Walden* (n 19) 165-171

<sup>175</sup> E.g. Section 11, GPLv3 (Patent Grant); Section 11, MPLv2.0 (Patent Grant). See generally, *Vasudeva* (n 151)

<sup>176</sup> A covenant given by the licensee not to sue other contributors with respect to patent rights.

<sup>177</sup> A stronger version of a non-assertion covenant. It usually states that assertion of patent rights by a licensee against another contributor, or even a third-party (i.e. any suit based on patent rights over

death' clauses.<sup>178</sup> The aim of these provisions is to ensure that there is a stable, litigation-free equilibrium throughout the licensing ecosystem. In achieving this, these provisions ensure that the teleological objectives are not undermined or fettered by the presence of other IPR<sup>179</sup>

### [2.2.3] Disclaimers & Limitations of Liability

Almost all FOSS licence templates are drafted to disclaim all warranties and to limit any liability for damages to the extent permitted by domestic law.<sup>180</sup> This is important because it ensures that – to the extent permitted by law – all the risk is assumed by the licensee or user. There are several reasons why these provisions are vital in supporting the teleological objectives of the licence templates. Firstly, imposing conventional notions of product liability to FOSS developers is widely seen to be antithetical to the informal, experimental, decentralised, and sometimes chaotic nature of FOSS development. As a practical matter, if FOSS developers were to assume liability for their contributions, then individuals and firms might refrain from contributing and participating in FOSS development for fear of being sued. This would likely have a chilling effect on FOSS development. Secondly, the general principle of *caveat utilitor* (i.e. user beware) that underpins the FOSS licensing model provides an opportunity for commercial firms to operate business models built

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any software), will immediately revoke all rights granted under the FOSS licence, thus exposing the licensee to liability.

<sup>178</sup> A 'liberty-or-death' clause stipulates that if, for whatever reason, you cannot distribute in accordance with the licence terms, then you should not distribute under the FOSS licence at all. See, e.g. Section 7 of GPLv2. See, *Shemtov & Walden* (n 19) 166

<sup>179</sup> This coincides with communal initiatives aimed at removing the threats of litigation and friction, e.g. defensive patent pools, patent promises and pledges, defensive publication. See Langley & MacKernan, *Patent Litigation and Patent Wars* in *Shemtov and Walden* (n 19) 213-217

<sup>180</sup> Some of the more extreme permissive licences do not have such disclaimers or limitations. For example, see the WTFPL <[www.wtfpl.net/about/](http://www.wtfpl.net/about/)> accessed 28.08.17.

around quality assurance and supplementary legal protections.<sup>181</sup> In this respect, certain commercial opportunities arise as an indirect result of the disclaimers and limitations found in FOSS licences.

#### **[2.2.4] Re-Licensing Provisions**

As already discussed, many ‘restrictive’ FOSS licence templates stipulate that any redistribution of the licensed code, either modified or unmodified, must be licensed under the same licence.<sup>182</sup> These provisions – often referred to as ‘copyleft’ provisions – ensure that the FOSS-licensed code and any modifications remain ‘free’ and/or ‘open’ for downstream parties.<sup>183</sup> The problem with the strict application of copyleft provisions is that, in certain circumstances, it may be desirable or even necessary to allow a downstream party to re-licence the code under a different licence. Given this, many copyleft licence templates also include provisions that set out the limited circumstances in which a licensee may re-licence the covered code under a different licence.<sup>184</sup>

For example, where a licence template or any of its provisions become ineffective or redundant due to changes in technology, law or practice, it may be desirable to allow downstream licensees to re-licence the code under an updated version of the licence. Accordingly, several licence templates have a provision which states that the code can be

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<sup>181</sup> See, Kubelka & Fawcett, *No Free Beer – Practice Tips for Open Source Licensing* (2006) 22 Santa Clara. Comp. & High Tech. LJ, 797, 808 (discussing the ‘supplementary protections’ business model).

<sup>182</sup> See Section 1.4.5 above.

<sup>183</sup> *Ibid*

<sup>184</sup> It is important to note that permission to ‘re-licence’ the work is not always expressly set out in the text of the licence template itself. It is common practice for the author to affix a notice to the work stating that it is available under a certain licence or ‘any later version’. For example, see ‘How to Apply these Terms to your New Program’ in GPLv2

redistributed under the same licence or ‘*any later version*’.<sup>185</sup> Furthermore, allowing downstream parties to re-licence the work is essential to overcoming the problems of licence incompatibility, i.e. where two different licences govern the same software and their terms are incompatible with one another.<sup>186</sup> Indeed, a common solution to licence incompatibility is to draft licences with a ‘compatibility clause’ (sometimes referred to as a ‘concession clause’) which dictates which licence is to cede to the other in the event that two copyleft licences must both apply to the same derivative work.<sup>187</sup>

These provisions serve as an important mechanism by which FOSS licence templates can provide sufficient flexibility to respond to changing technologies and practices (and the ongoing challenges of licence proliferation) without compromising on core teleological objectives.

### **[2.2.5] Ad Hoc Technology-Related Provisions**

The final category is comprised of licence provisions that are diverse in nature, but are nonetheless united by one common factor: namely, they can all be characterised as mechanisms that respond to specific technological developments. Indeed, over the past 30 years, there have been several developments that have changed the way in which software is produced, distributed and used. The most obvious example one can point to is the rise of

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<sup>185</sup> For example, see Section 3.3 of the MPLv.2.0 and Section 5 of the European Union Public Licence Version 1.2 (EUPLv1.2) at <[https://joinup.ec.europa.eu/sites/default/files/eupl\\_v1.2\\_en.pdf](https://joinup.ec.europa.eu/sites/default/files/eupl_v1.2_en.pdf)>

<sup>186</sup> For a discussion on the need for ‘legal interoperability’ and ‘licence compatibility’, see Schmitz, *Developing an EU Model: The EUPL License* in Directorate General for Internal Policies Policy Department C: Citizens, Rights and Constitutional Affairs: Legal Affairs: “Legal aspects of free and open source software COMPILATION OF BRIEFING NOTES WORKSHOP” (9 July 2013) JAN 4 Q 1 PE 474.400 EN., at <[www.europarl.europa.eu/document/activities/cont/201307/20130708ATT69346/20130708ATT69346EN.pdf](http://www.europarl.europa.eu/document/activities/cont/201307/20130708ATT69346/20130708ATT69346EN.pdf)> accessed 28.08.17.

<sup>187</sup> See Section 5 EUPLv1.2. See also, Schmitz, *The European Union Public Licence* (2013) IFOSS L. Rev. Vol.5, No.2 121; see also, *Shemtov & Walden* (n 19) 99-104

the internet; a development that has been quintessential to the success of FOSS, but which has also raised certain challenges for first-generation FOSS licence templates.<sup>188</sup> Other notable technological developments include the following: technological protection measures (TPMs),<sup>189</sup> digital rights management systems (DRMs),<sup>190</sup> cloud computing (e.g. SaaS/IaaS/PaaS),<sup>191</sup> application programming interfaces (APIs) and compatibility layers, to name just a few.<sup>192</sup> Each of these technological developments has had the effect of exposing ‘loopholes’ or certain inadequacies in traditional FOSS licence templates.<sup>193</sup> In turn, this has led to the creation of new or updated licences templates that contain *ad hoc* provisions expressly dealing with the loopholes and flaws that might otherwise be exploited through these new technologies.<sup>194</sup> In this respect, this final catch-all category of terms can be viewed as a series of mechanisms that act to ensure that the teleological objectives are realised notwithstanding the changing technological environment in which FOSS licence templates find themselves situated.

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<sup>188</sup> As early as the late 1990s, FOSS commentators began noting these fundamental shifts in the software industry and their potential to impact on FOSS licensing models, see O’Reilly, *The New Age of Infoware: Open Source and the Web* (O’Reilly, 1999) <[www.oreilly.com/tim/archives/mikro\\_age\\_of\\_infoware.pdf](http://www.oreilly.com/tim/archives/mikro_age_of_infoware.pdf)> accessed 28.08.17.

<sup>189</sup> For example, the practice of ‘Tivoization’, see *Vasudeva* (n 37) 146

<sup>190</sup> E.g. See, the use of ‘trusted computing’ as a form of DRM. See, Anderson, ‘*Trusted Computing*’ *Frequently Asked Questions* (August 2003) <[www.cl.cam.ac.uk/~rja14/tcpa-faq.html](http://www.cl.cam.ac.uk/~rja14/tcpa-faq.html)> accessed 28.08.17. See also, *Vasudeva* (n 37) 141

<sup>191</sup> See Menčl & Kuan Hon, *Copyleft in the Cloud* in *Shemtov & Walden* (n 19) 325; see generally, *Millard* (n 61)

<sup>192</sup> There has been a concern that innovations in technical features like APIs and so-called ‘shim layers’ may be used as avoidance mechanisms for FOSS obligations, e.g. by acting as a layer between the proprietary code and the FOSS code. See e.g., *FAQ about Christoph Hellwig’s VMware Lawsuit* (SFC, 2016) <<https://sfconservancy.org/copyleft-compliance/vmware-lawsuit-faq.html>> accessed 28.08.17

<sup>193</sup> See, for example, the discussion on the ‘ASP’ (application service provider) loophole or ‘SaaS Loophole’ in copyleft licences like the GPL, see *Menčl & Kuan Hon* (n 191) 340.

<sup>194</sup> For example, the GNU Affero General Public Licence (AGPL) was specifically drafted in an attempt to close the ASP loophole. *Ibid*

### **[2.2.6] Concluding Remarks on Mechanisms**

This section has identified various mechanisms that are commonly used to promote the teleological objectives of the FOSS licence templates. Each of the categories set out is shown to play an important role in giving effect to the ideational dimensions of the templates. While all templates embody the same objectives pertaining to the free accessibility of source code and the granting of legal permissions to use, modify and distribute the code, they can often vary greatly in terms of the mechanisms they employ. While these variations may give rise to complex licence taxonomies and protracted debates over licence compatibility, they are nonetheless driven by the same underlying concern: namely, to promote and facilitate the creation and use of FOSS. In this respect, the variations may be viewed as a disagreement over which combination of mechanisms are most effective in achieving this objective.

### **[2.3] Specific Enforcement Objectives**

The remaining part of this chapter is dedicated to examining the specific enforcement objectives embodied in FOSS licence templates. Unlike teleological objectives, these objectives relate specifically to legal enforcement and the types of redress sought when parties act in violation of the terms. In this respect, they are concerned primarily with more functional dimensions of the licensing templates in so far as they set out the legal consequences of non-compliance. The section focuses on two key enforcement objectives that are embodied in all FOSS licence templates. The first objective is to ensure that the violation of any of the restrictions in a FOSS licence template gives rise to claim for copyright infringement. The second is to ensure that FOSS licence templates ‘run with the

code’ so that they are enforceable against any recipient irrespective of how far removed they are down a chain of conveyance.<sup>195</sup>

As will be shown in this section, it is essential that these two objectives are realised for the FOSS licence templates to achieve their teleological objectives. This is one of the key points that should be taken from this chapter: namely, that for the FOSS licensing model to succeed at an ideational level, establishing its subversive system within a system, then the templates must succeed in securing these enforcement objectives in a domestic legal context. Indeed, legal recognition and validation of these enforcement objectives by domestic courts is intrinsically tied to the legal recognition and validation of FOSS licensing model itself.

### **[2.3.1] Obtaining Effective Remedies**

The most important enforcement objective of any FOSS licence template is to ensure that any violation of a licence provisions gives rise to a claim for copyright infringement. The rationale behind this objective is rather straightforward: namely, that without recourse to the infringement remedies provided by copyright law, FOSS licensors would struggle to enforce the provisions of FOSS licences with any meaningful effect. This is because copyright remedies – in contrast to those provided by the general law of contract – are generally better suited to addressing the specific harms suffered by FOSS licensors as the result of violations. This section details why it is that copyright remedies are considered more effective than contractual remedies and hence why FOSS licences drafters pursue this

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<sup>195</sup> The term ‘conveyance’ acts as a term of art in the FOSS context. It is used to describe any form of transmission or distribution of a protected work, encompassing all acts of physical distribution and digital transmission, including the act of ‘making available online’. The term was originally devised for the GPLv3 to capture all forms of ‘distribution’ notwithstanding variations in national legal definitions. See, *Meeker* (n 115)

enforcement objective. In doing so, the section focuses primarily on common law remedies, which is a reflection of the fact that the templates have largely been drafted by US lawyers with common law as their point of reference.

### [2.3.1.A] The Inadequacy of Contractual Remedies

There is a widely-held view in FOSS scholarship that contractual remedies alone are inadequate in addressing the harms suffered from FOSS licence violations.<sup>196</sup> This is because contractual remedies are generally compensatory in nature.<sup>197</sup> The principal common-law remedy for breach of contract is an award of compensatory damages,<sup>198</sup> the aim of which is to compensate the losses of the injured party by putting them back in the same position they would have been had the contract been performed.<sup>199</sup> The problem with applying this compensatory principle to the breach of a FOSS licence – assuming that the

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<sup>196</sup> Spencer, *Using Copyright Remedies to Promote Efficiency in the Open Source Regime in the Wake of Jacobsen v Katzer* (2009) 6 J. L. Econ. & Pol'y 63, 75-82; McGowan, *The Tory Anarchism of F/OSS Licensing* (2011) 78 U. Chi. L. Rev. 207, 213-220; Walden, *Open Source as Philosophy, Methodology and Commerce in Shemtov & Walden* (n 19) 33; Gomulkiewicz, *Conditions and Covenants in License Contracts: Tales from a Test of the Artistic License* (2009) 17 Texas Int. Prop. L. J. 335, 344; Ferrance, *Economic Interests and Jacobsen v Katzer: Why Open Source Software Deserves Protection under Copyright Law* (2009) 39 New Mexico L. Rev. 549, 569; Fabricius, *Jacobsen v Katzer: Failure of the Artistic License and Repurcussions for Open Source* (2008) 9 NC. JOLT. 65

<sup>197</sup> See generally, Perillo (ed.) *Corbin on Contracts* (Rev. ed., Lexisnexis, 2014) §55

<sup>198</sup> The principal remedy for breach of contract under German contract law is a claim for performance. The failure of the obligor to comply with a contractual obligation for the performance or forbearance of an act entitles the obligee to seek performance or forbearance of that act as a primary right (Sections 241, 275 BGB), with damages available as a secondary right (See, Sections 280 and 281 BGB). This means that German FOSS licensors do not face the same issues regarding the adequacy of contractual remedies as US licensors because a claim for performance (or injunction to maintain forbearance) is not subject to the equitable discretion of the court. For this reason, the following section is common-law specific in its treatment of FOSS licence template enforcement objectives. However, as noted above, this reflects the fact that most FOSS licences have been drafted with common law as their point of reference.

<sup>199</sup> See generally, *Restatement (Second) of Contracts*, §344 (summarising US case law in terms of protecting three interests: expectation, reliance and restitution); See *Corbin on Contracts* (n 197) §55.11; See also, Nimmer, *Licensing of Intellectual Property and Other Information Assets* (2<sup>nd</sup> ed., LexisNexis, 2007) 587

licence templates are indeed contractual – is that it typically requires the licensor to be able to demonstrate their loss in pecuniary terms.<sup>200</sup> This can prove rather difficult in the case of FOSS licence templates.

Whereas a proprietary software licensor will likely suffer a pecuniary loss as the result of a contractual breach (e.g. a loss of potential royalties or licensing fees), a FOSS licensor will in many cases struggle to demonstrate a material change in their position.<sup>201</sup> In part, this can be attributed to the fact that FOSS licensors typically grant their rights to the public free of charge, thus making it difficult for licensors to show direct pecuniary interests tied to the grant of rights and restrictions.<sup>202</sup> On a more fundamental level, however, this can be attributed to the unique teleological objectives of FOSS licences. As discussed above, FOSS licences are not drafted with the objective of securing remuneration in exchange for the grant of rights, but instead pursue the principal objective of upholding ‘software freedoms’ and promoting the practices of open development.<sup>203</sup> Given these unique objectives, the harm or injury suffered by a FOSS licensor will in many cases be impossible to express in pecuniary terms alone.<sup>204</sup> Furthermore, it may be argued that pecuniary remedies in fact do more harm than good by simply pricing the cost of non-compliance instead of eliminating it; creating moral hazard that undermines the teleological objectives of the templates.<sup>205</sup>

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<sup>200</sup> See generally, *Corbin on Contracts* (n 197) §55.12

<sup>201</sup> McGowan discusses the relative difficulties in establishing damages for breach with respect to both proprietary and FOSS licences. See, *McGowan* (n 196) 217-220

<sup>202</sup> *Ibid* 217

<sup>203</sup> See Section 2.1 above.

<sup>204</sup> In theory, it may be possible to monetise such things as reputational gains, but this would be highly speculative and impossible to quantify with precision. See, *McGowan* (n 196) 217-218

<sup>205</sup> See, *McGowan* (n 196) 213; Ard, *Notice and Remedies in Copyright Law* (2015) 80 Missouri L. Rev. 313, 351; Ben-Shahar, *Damages for Unlicensed Use* (2011) 78 U. CHI. L. REV. 7, 28. This point is expressed in the SFC’s ‘Principles of Community-Oriented GPL Enforcement Guidelines’ where FOSS licensors are

With that said, it is by no means impossible for FOSS licensors to successfully demonstrate a claim for compensatory damages. Indeed, there are a variety of ways in which FOSS licences are used to generate economic or commercial value for licensors and, as such, there are several ways in which a claimant might attempt to establish and quantify their pecuniary loss.<sup>206</sup> However, the economic or commercial value of FOSS is rather complex in nature and is often generated in ways that run ancillary to the primary licensing relationship.<sup>207</sup> This in turn can make it difficult to satisfy the evidentiary burden when seeking compensatory damages under general principles of contract law.<sup>208</sup>

While the principal common law remedy for a breach of contract is an award of damages, this is by no means the only remedy available. A claimant may also have recourse to equitable remedies for a contractual breach where it is shown that legal remedies are inadequate or unavailable.<sup>209</sup> These may include restitutionary damages (i.e. account of

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advised against accepting monetary payments for settling enforcement claims without also securing compliance, see, Kuhn, Randal and Sandler, *The Principals of Community-Oriented GPL Enforcement* (Software Freedom Conservancy, 2015) <<https://sfconservancy.org/copyleft-compliance/principles.html>> accessed 28.08.17.

<sup>206</sup> E.g. where a FOSS licensor employs a 'dual licensing' model, i.e. where the right-holder licences their work under both a FOSS licence and a proprietary licence, charging a monetary fee for the latter. In such circumstances, the right-holder may be able to use a licence analogy argument to establish that breach of restrictions in the FOSS licence generates expectations damages of the lost licensing fee otherwise paid for the proprietary licence. See, *Fabricius* (n 196) 81. As we shall see in Chapter 4, there have been a handful of cases in the US and Germany where courts have applied licence analogy arguments to ascertain damages for breach of FOSS licences.

<sup>207</sup> For an overview of business models built on FOSS, see Dafarra, *Business Models in FLOSS-Based Companies* (January 2007) <[www.researchgate.net/publication/228465137\\_Business\\_models\\_in\\_FLOSS-based\\_companies](http://www.researchgate.net/publication/228465137_Business_models_in_FLOSS-based_companies)> accessed 28.08.17.

<sup>208</sup> Courts in the US may decide to award nominal damages to the innocent party 'if the breach caused no loss or the amount is not proved under the [general rules of contract law]'. See, *Restatement (Second) of Contracts* (1981) §346(2). See, *Spencer* (n 196) 75; see also, *Corbin on Contracts* (n 197) §55.10

<sup>209</sup> See generally, *Corbin on Contracts* (n 197) §63.7

profits),<sup>210</sup> specific performance<sup>211</sup> and injunctive relief.<sup>212</sup> These types of remedies are certainly more effective in cases where there is no readily identifiable loss suffered by the claimant, as may be the case with FOSS licence violations.<sup>213</sup> With that said, there are a few factors that one must consider when seeking such remedies for FOSS licence violations. First, one must bear in mind that, as equitable remedies, they are generally awarded on a discretionary basis.<sup>214</sup> Thus, there is no guarantee that a FOSS claimant will obtain such relief in the event of a licence violation.<sup>215</sup> Second, while a restitutionary approach may provide a better measure with which to calculate a FOSS claimant's damages,<sup>216</sup> the award is still in essence a pecuniary one and, as such, fails to account for the non-pecuniary objectives embodied in FOSS licence templates.<sup>217</sup> Third, while specific performance may provide a powerful remedy with which to 'force' licensees into compliance, FOSS licence drafters and commentators generally agree that the remedy may cause more harm than good.<sup>218</sup> This is because the mere threat of a claim for specific

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<sup>210</sup> *Ibid* §61

<sup>211</sup> *Ibid* §63

<sup>212</sup> *Ibid*

<sup>213</sup> E.g. see, Kronman, *Specific Performance* (1978) 45 U. Chi. L. Rev. 351, 355 (noting that specific performance is more likely obtained where obtaining the monetary equivalence of performance is difficult).

<sup>214</sup> *Corbin on Contracts* (n 197) §63.1

<sup>215</sup> See, for example, a US court discussing the availability of these remedies for FOSS claimants, *Artifex Software Inc. v Hancom, Inc.* Case No.16-cv-06982-JSC (25 April 2017, N.D. Cal.)

<sup>216</sup> i.e. calculating damages on the basis of the wrongdoers' gains instead of the wronged party's losses.

<sup>217</sup> The restitutionary approach also raises difficult questions over the apportioning of profits in circumstances where the code used in breach of the contractual restriction forms a part or component of a larger work or product. See, Ciolino, *Reconsidering Restitution in Copyright* (1999) 48 Emory L.J. 1, 20

<sup>218</sup> See, Moglen, *Enforcing the GNU GPL* (10 September 2001) <[www.gnu.org/philosophy/enforcing-gpl.html](http://www.gnu.org/philosophy/enforcing-gpl.html)> accessed 28.08.17; Jones, *The GPL is a License, not a Contract* (lwn.net, 3 December 2003) <<https://lwn.net/Articles/61292/>> accessed 28.08.17; Kumar, *Enforcing the GNU GPL* (2006) Journal

performance – particularly in relation to ‘viral’ copyleft obligations – has the potential to deter proprietary actors from engaging with FOSS *ab initio*, lending legitimacy to the fears that their proprietary code could be forced open.<sup>219</sup> For this reason, several FOSS advocates reject outright the possibility of seeking specific performance for non-compliance, instead favouring an exclusionary approach.<sup>220</sup> Finally, while injunctive relief may be awarded for a contractual claim, the claimant must establish that the equity of the situation demands such an extraordinary remedy; a threshold which is met by satisfying certain judicial criteria.<sup>221</sup> In this respect, US courts have traditionally been more forthcoming in granting injunctions for copyright claims given that – at least until recently – there was a legal presumption that the infringement of an exclusive right constituted an irreparable harm to the right-holder.<sup>222</sup> On this basis, injunctive relief was seen to automatically flow from an infringement claim almost as of right, whereas contract claims would require further evidence of the harms and a more discerning balancing of interests.<sup>223</sup> In short, the

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of Law, Technology & Policy 1, 15; Gonzalez de Alaiza Cardona, *Open Source, Free Software and Contractual Issues* (2006) 15 Tex. Intell. Prop. L.J. 157, 188

<sup>219</sup> See, Corbet, *Examining an Attack on the GPL* (Lwn.net, 24 November 2003) <<https://lwn.net/Articles/59505/>> accessed 28.08.17 (discussing a press-release from a law firm that warns against the use of GPL-licensed code for this reason); For the accompanying letter to the press-release, see Henry, *Viral Open Source License Can Destroy Software’s Value* (2003) <<https://lwn.net/Articles/60058/>> accessed 28.08.17

<sup>220</sup> *Jones* (n 218) (citing Moglen – ‘The claim that a GPL violation could lead to the forcing open of proprietary code that has wrongfully included GPL'd components is simply wrong.’). While FOSS licence drafters and advocates advise against the assertion of specific performance claims, there is nothing to prohibit a FOSS licensor from seeking such a claim. For example, see *Versata* litigation below at Section 4.2.3.B.

<sup>221</sup> The general rule being that the claimant must show that there is no adequate remedy at common law, i.e. that compensatory damages are not adequate. See, generally, Fischer, *Understanding Remedies* (3<sup>rd</sup> ed., 2010) §21

<sup>222</sup> See Section 2.3.1.B(ii) below.

<sup>223</sup> See, Brown, *Civil Remedies for Intellectual Property Invasions: Themes and Variations* (1992) Law & Contemporary Problems, Vol.55 No. 2, 46 (citing and discussing Alan Latman’s comment on the availability of preliminary injunctions in copyright cases in the 1970s – ‘such relief is often close to automatic.’)

evidential burden for establishing a claim for injunctive relief was – at least traditionally – deemed much easier to satisfy under copyright law than it was under contract law.

In summary, when we take into account the teleological objectives of FOSS licence templates, we find that contract law fails to provide an effective remedial framework for addressing the specific harms of non-compliance. Of course, this is not to say that compensatory remedies are wholly inadequate. Certainly, in recent years, FOSS claimants have had some success in obtaining compensatory remedies for FOSS licence violations; although the extent to which such remedies alone have provided meaningful redress may be subject to further debate.<sup>224</sup> However, it remains the case that copyright remedies have been deemed by FOSS licence drafters and FOSS commentators to be more effective – essential even – in ensuring that FOSS licence templates can achieve their objectives of making software ‘free’ and ‘open’.

### **[2.3.1.B] The Advantages of Copyright Remedies**

The principal advantage of copyright remedies is that they are intended to support the right to exclude. In the US, and indeed most jurisdictions, copyright remedies are set out in statutory law.<sup>225</sup> Unlike common law contract remedies, which have as their main objective the compensation of loss suffered by the innocent party, copyright remedies are more broadly concerned with protecting the interests of the author or right-holder and maintaining the integrity of the exclusive right.<sup>226</sup> As such, copyright remedies are designed

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<sup>224</sup> See discussion of subsequent case law in Chapter Four.

<sup>225</sup> In the United States, see, Title 17 U.S.C. Chapter 5 (‘Copyright Infringement and Remedies’). In Germany, see Sections 97 *et seq* of the UrhG 1965. For related commentary, see Schwartz and Nimmer, *United States* in Bently & Geller, *International Copyright Law & Practice* (LexisNexis, 2015) Section 8[4]; see also Dietz, *Germany* (ibid) Section 8[4]

<sup>226</sup> See, generally, Claeys, *The Conceptual Relation Between IP Rights and Infringement Remedies* (2015) *Geo. Mason L. Rev.*, Vol. 22, No.4, 825

not only to compensate a right-holder's losses or recover ill-gotten gains, but most importantly to support the exclusive character of the right.<sup>227</sup> Indeed, as an exclusive property right, copyright permits a right-holder to exclude others from performing certain restricted acts in relation to the work.<sup>228</sup> As will be discussed, it is this exclusionary dimension to copyright remedies that makes them particularly effective – essential even – in the context of FOSS licence enforcement. To better understand why exclusionary remedies are so essential, we need to look more deeply at the nature of the harms suffered through FOSS licence violations.

*(i) The Harms of FOSS Licence Violations*

As already discussed, FOSS licence violations generate harms that are not easily reduced to pecuniary terms alone. These are harms which many FOSS advocates would refuse to suffer for any price. This raises the question: what are the specific harms caused by FOSS licence violations? The short answer is that the harms are rather 'diffuse and complex', reflecting in many ways the diffuse and complex nature of FOSS development itself.<sup>229</sup> This section gives a brief overview of these harms to illustrate why it is that exclusionary remedies are deemed essential to the effective enforcement of FOSS licence templates. The section considers three distinct categories of harm: (i) harm to the individual licensor, (ii) harm to FOSS communities, and (iii) harm to the public interest.<sup>230</sup>

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<sup>227</sup> *Ibid*; see also, *Brown* (n 223)

<sup>228</sup> See, Breakey, *Properties of Copyright: Exclusion, Exclusivity, non-interference and authority* in Howe & Griffiths (eds.), *Concepts of Property in Intellectual Property Law* (2013, OUP) 137

<sup>229</sup> See, Ravicher, *Brief of Amicus Curiae Software Freedom Law Centre in Support of Appellant Robert Jacobsen* (15 June 2009) <<http://jmri.sourceforge.net/k/docket/cafc-pi-2/SFLC-amicus-brief-6-15-09.pdf>> accessed 28.08.17.

<sup>230</sup> This section draws heavily upon the Software Freedom Law Centre's (SFLC) amicus brief in support of Jacobsen's second appeal to the Court of Appeal for the Federal Circuit (CAFC). The brief, drafted by Daniel B. Ravicher, provides a succinct account of the specific harms of FOSS licence violations and has been helpful guide in structuring the present section. *Ibid*.

Focusing first on the harms to the licensor, when one violates a FOSS licence template or otherwise performs acts in relation to the code for which permission was not given, they not only appropriate the value of the software in a pecuniary sense, but also ‘deny [the] author the sole object of their effort’, namely, they deny the author ‘the freedom embodied in and protected by the licence’.<sup>231</sup> In this regard, the ‘misappropriation destroys the very purpose for which the developers write the software’.<sup>232</sup> This is a very direct and immediate harm to the individual who creates and shares software that is ‘free’ and ‘open’; a harm that threatens the very integrity of copyright and the interests it is serves to protect.<sup>233</sup>

Looking beyond the individual author, we find that FOSS licence violations can also cause significant harm to communities of FOSS developers and users. Certainly, such violations have been shown to weaken and undermine the vital constitutive relations of community that are essential to the collaborative process of FOSS development. As Daniel Ravicher writes:

FOSS developers work within communities in which almost all work is strictly voluntary, i.e., not financially compensated. If developers' work is exploited, their choice to participate in the community is reduced to a prisoner's dilemma: anyone can defect from the common terms, receiving the benefit of others' cooperation and also punishing it as described above. Over time, the community will be deprived of

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<sup>231</sup> *Ibid* 6

<sup>232</sup> *Ibid* 6

<sup>233</sup> Certainly, if we view copyright through the lens of incentives, then failure to protect against misappropriation destroys the purpose for which that author creates the work. This in turn undermines the incentives of that author to continue creating works in future, thus undermining copyright’s incentive function. Similarly, if we view copyright through the civilian lens of personality rights, failure to protect against misappropriation raises similar concerns over failure to protect the interests of the individual.

contributions, as developers are discouraged from contributing by repeated exploitation. This harm cannot be compensated by money damages, as no amount of money can reconstitute a community.<sup>234</sup>

Indeed, FOSS communities are built on norms of trust, collaboration and co-operation. Licence violations therefore threaten these norms and undermine the vital relations of community; relations which cannot be easily restored through legal means. Furthermore, such breakdowns in mutual trust and co-operation can threaten the ongoing process of iterative development, in turn depriving communities and their users of the innovation and quality that the commons-based peer production model can deliver. Certainly, where modifications made under a copyleft licence are not released back to the community, the community is deprived of any potential improvements in quality and functionality.<sup>235</sup> But even more minor transgressions – e.g. a failure to comply with a notice requirement detailing how and when alterations have been made to the code – may deprive downstream developers of information that is crucial to ensuring continued quality in the code. For example, a failure to maintain the relevant copyright notices may prevent downstream licensees from being able to contact upstream developers when seeking to resolve certain legal or technical issues relating to the code. This in turn could have a detrimental effect on the quality of the code or, at the very least, increase search and information costs for downstream developers. Thus, these harms are certainly not limited to the licensor, but are felt more broadly by the developer community and users. With regards to users specifically, they too suffer harm when they are denied the opportunity to engage as participants in the

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<sup>234</sup> *Amicus Brief* (n 229) 7

<sup>235</sup> *Ibid*

community and exercise their ‘software freedoms’. On this point, Daniel B. Ravicher writes:

FOSS copyright licenses are not just dry recitations of grants and conditions —they are themselves advocacy and outreach efforts, and they define the relationships between participants in a community. By giving people freedom, developers make a potent argument about the value of that freedom, and they invite users to join them in extending that freedom to others by making more FOSS. FOSS licensees do not only submit to the legal boundaries of the license, they also by implication adopt its political and noneconomic principles. A license violation destroys the invitation. It converts free software into merely software; participants in a community into merely end users. Because every user is a potential volunteer, interrupting the connection between projects and users deprives the projects of their most valuable resource, people's time and attention. Over time, renewing this resource is the difference between the projects that are successful and those that are defunct.<sup>236</sup>

In addition to making his point so eloquently, Daniel Ravicher draws attention to a crucial link between the unique teleological objectives of FOSS licence templates and the unique nature of the harms suffered. Indeed, it is a link that is crucial to understanding why – as a specific enforcement objective embodied in FOSS licence templates – copyright remedies are deemed essential.

Finally, FOSS licence violations also cause harm to the broader public interest by endangering all the benefits that individuals, businesses, and the public sector enjoy through having a robust system for the production and use of FOSS (e.g. interoperability, open standards, data portability, no proprietary vendor lock-in, lower barriers of entry for

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<sup>236</sup> *Amicus Brief* (n 229) 8-9

competition, reduced hardware and software costs, lower cost for consumer appliances etc). These benefits are all broader societal benefits in the sense that they do not accrue to a single individual or group, but promote the general welfare of the public. Accordingly, when FOSS licence templates are violated, they cause harm to the public interest by endangering these broader benefits.

In summary, it has been shown how the harms of FOSS licence violations are highly complex in nature. These harms are not suffered by the licensor alone, but are suffered also by those who are linked distally through complex relationships and networks, e.g. communities of developers, users, and the public. What all of this serves to highlight is that the harms of FOSS licence violations cannot be remedied through compensatory remedies alone. Furthermore, by reducing the harms to pecuniary terms, there is a danger that one merely prices the behaviour instead of preventing it. Accordingly, exclusionary remedies are considered essential for ensuring that violations and the attendant harms cease. Without the ability to prohibit and exclude through injunctive relief, the licence templates are effectively rendered useless in their ability to ensure the teleological objectives are realised. Almost all FOSS commentators – including those responsible for drafting FOSS licences – agree upon the need for exclusionary or prohibitory remedies.<sup>237</sup> Not only do they agree upon the need for exclusionary remedies, but they also generally agree that copyright law is universally the most reliable source for claimants obtaining such remedies.<sup>238</sup>

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<sup>237</sup> For example, see, McGowan, *Irreparable Harm* (2010) 14 Lewis & Clark L. Rev. 577, 593; McGowan (n 196) 217; Platt, Chen & Newton, *Obtaining Preliminary Injunctions in Open Source Cases* (2011) Intellectual Property Litigation, Vol.23, No.1, 5; Spencer (n 196) 74 ff.; Ferrance (n 196) 559

<sup>238</sup> *Ibid*

(ii) *Copyright Law and Exclusionary Remedies*

Under US law, establishing a claim for copyright infringement may give rise to several types of remedies and sanctions.<sup>239</sup> Among them, the principal exclusionary remedy is the injunction. A prohibitory injunction can be considered exclusionary in the sense that it ‘commands or prevents a party from performing some act’.<sup>240</sup> In the copyright context, such injunctive relief typically prevents the infringing party from further engaging in any infringing acts, in effect, excluding them from the internal or positive aspect of the right (i.e. performing positive acts in relation to the work).<sup>241</sup> The US Copyright Act authorizes courts to grant preliminary and final injunctions in response to infringement claims.<sup>242</sup> Courts are never compelled to issue an injunction, but are instructed to award injunctive relief ‘on such terms as it may deem reasonable to prevent or restrain infringement of a copyright’.<sup>243</sup> Accordingly, the courts have discretion in deciding whether, and on what terms, a preliminary or final injunction is to be issued.<sup>244</sup> It has been traditionally held that ‘the basis for injunctive relief [...] has always been irreparable injury and the inadequacy of legal remedies’.<sup>245</sup> To determine whether there is such basis for granting a preliminary

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<sup>239</sup> See, 17. U.S.C. Chapter 5 (‘Copyright Infringement and Remedies’)

<sup>240</sup> See, *Black’s Law Dictionary* (9<sup>th</sup> ed. 2009) 885

<sup>241</sup> See *Breakey* (n 228) 137 (discussing copyright as a negative, exclusive right); see also, *Rahmatian* (n 9) 7-10

<sup>242</sup> 17 U.S.C. §502(a)

<sup>243</sup> *Ibid*

<sup>244</sup> See, generally, *Ebay Inc., v Mercexchange, LLC*, 547 U.S. 388 (2006) (‘The decision to grant or deny permanent injunctive relief is an act of equitable discretion by the district court, reviewable on appeal for abuse of discretion.’)

<sup>245</sup> *Weinberger v Romero-Barcelo*, 456 U.S. 305, 312 (1982)

injunction, US courts now apply the ‘traditional’ four-factor test which considers the following:

- (1) whether the claimant will have an adequate remedy at law or will be irreparably harmed if the injunction does not issue;
- (2) whether the threatened injury to the claimant outweighs the threatened harm the injunction might inflict on the defendant;
- (3) whether the claimant has at least a likelihood of success on the merits; and
- (4) whether the granting of a preliminary injunction will disserve the public interest.<sup>246</sup>

As briefly noted above, it was traditionally the case that US claimants would secure preliminary injunctive relief in copyright cases with relative ease.<sup>247</sup> This was due to the way in which US courts dealt with the above criteria when assessing copyright claims. Indeed, right-holders were greatly assisted by the fact that the US courts would often apply a presumption of irreparable harm in relation to a claim for copyright infringement.<sup>248</sup> To attain this presumption, the claimant simply had to show a reasonable likelihood of success

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<sup>246</sup> For overview of traditional four-factor test under US law, see Stoll-Debell *et al*, *Injunctive Relief: Temporary Restraining Orders & Preliminary Injunctions* (American Bar Association, 2009) 20; see also, *Brown* (n 223) 47 (discussing the ‘murky variations’ in the form of this test as it has been adopted by different courts); see also, McClimon, *Denial of Preliminary Injunction in Copyright Infringement Cases: An Emerging Judicially Crafted Compulsory License* (1986) 10 Colum-VLA J L & Arts 277, 292-293 (discussing the origins of the four-factor test). The criteria to consider for a final injunction are essentially the same. Chapter Six discusses some of the more recent debates in scholarship concerning the formulation and application of these factors, see Section 6.2.3 below.

<sup>247</sup> *Brown* (n 223); see also, Lemley & Volokh, *Freedom of Speech and Injunctions in Intellectual Property Cases* (1998) 48 Duke L.J. 147, 158-159 (discussing the relative ease of securing preliminary injunctive relief on showing of a likelihood of success on the merits prior to the *eBay* decision).

<sup>248</sup> The presumption first surfaced in the Second Circuit, see *Am. Metro. Enters. of N.Y., Inc. v. Warner Bros. Records, Inc.*, 389 F.2d 903, 905 (2<sup>nd</sup> Cir. 1968) (‘A copyright holder in the ordinary case may be presumed to suffer irreparable harm when his right to the exclusive use of the copyrighted material is invaded.’). It was gradually adopted by other circuits over the next few decades.

on the merits.<sup>249</sup> Such a presumption was based on an understanding that damages would never fully compensate a copyright holder for the harms inflicted by infringement; the rationale being that ‘copyright protects more than the author's strictly economic interests; her personal, aesthetic and reputational interests may also be at stake’.<sup>250</sup> Others pointed to the transitory or ephemeral value of copyright works as a rationale for the presumption.<sup>251</sup> Not only would the courts apply a presumption of irreparable harm in the case of infringement claims, but they would also deal with the public-interest factor (see No. 4 above) by simply stating that there was clear public interest in protecting copyrights given that congress had beneficently authorised them by statute.<sup>252</sup> The overall effect of this approach to the four-factor test was to render likelihood of success on the merits the dominant factor in determining whether to grant a preliminary injunction. As a result, this lead US legal commentators to view preliminary injunctions as a form of relief that would arise automatically on the showing of a reasonable likelihood of success on the merits.<sup>253</sup>

By contrast, contractual claimants have never enjoyed the same favourable treatment under this four-factor analysis. This is not to say that the four-factors are never satisfied in relation to contractual claims. Indeed, in many US cases, contractual claimants are routinely awarded preliminary injunctive relief. What is clear, however, is that contractual claimants in the US have traditionally had a greater evidentiary burden to satisfy to obtain a preliminary injunction. This explains in part why FOSS licence templates

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<sup>249</sup> *Lemley & Volokh* (n 247) 158-164

<sup>250</sup> Goldstein, *Copyright: Principles, Law and Practice* (Little Brown, 1989, Supp 1991) § 11.10 at 248

<sup>251</sup> Nimmer & Nimmer, *Nimmer on Copyright* (Matthew Bender, 1991) § 14.06[A] 14-85

<sup>252</sup> For example, see, *Machinery Co. v. Classic Lawn Ornaments, Inc.*, 843 F2d 600, 612 (1st Cir 1988); see also, *Brown* (n 223) 48

<sup>253</sup> *Lemley & Volokh* (n 247) 159

are designed to ensure that FOSS claimants can bring copyright infringement claims instead of pure contractual claims pursuant to a violation.<sup>254</sup>

While it is now the case that US courts no longer extend a presumption of irreparable harm in relation to IP infringement claims (a development that will be discussed in greater detail later in this thesis), FOSS licence drafters and FOSS commentators still insist upon the essential need for FOSS licensors to assert copyright infringement claims.<sup>255</sup> Indeed, even without the presumption, a copyright claim is still widely considered to be more effective than a contractual claim. This is because – injunctive relief aside – US copyright law provides a range of additional remedies that may assist FOSS claimants in ways that contractual remedies may not. For example, US courts may award statutory damages,<sup>256</sup> customs seizure and forfeiture,<sup>257</sup> impoundment,<sup>258</sup> seizure of domain names,<sup>259</sup> takedown and filtering remedies,<sup>260</sup> and other administrative remedies.<sup>261</sup> What all these remedies share in common is that they are designed to uphold the right-holder’s ability to exclude.<sup>262</sup> They are not concerned solely with compensating the licensor. In this

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<sup>254</sup> On the design and drafting of FOSS licences, see Chapter Three below.

<sup>255</sup> See Section 6.2.3 below.

<sup>256</sup> 17 U.S.C. §504(c)

<sup>257</sup> 17 U.S.C. §603(c)

<sup>258</sup> 17 U.S.C. §503

<sup>259</sup> Not strictly a remedy of copyright law, but Federal courts can issue warrants for the seizure of public domain names of infringing sites pursuant to 18 U.S.C. §§ 981 and 2323 where there has been a criminal violation of copyright law. See, *Schwartz and Nimmer* (n 225) Section 8[4][c][iv]

<sup>260</sup> 17 U.S.C. §512(b)(2)(E), (c)(1)(A)(iii), (d)(1)(C). See *Schwartz and Nimmer* (n 225) Section 8[4][c][ii]

<sup>261</sup> For example, judicial remedies against tampering with technological protection measures of copyright-management information, See. 17 U.S.C. §1203.

<sup>262</sup> In the case of statutory damages, the purpose of the pecuniary award is not to compensate, but to act as a deterrent for the infringer; deterrence being part of the more general concept of exclusion. E.g. see, *Brown* (n 223) 72.

respect, notwithstanding the changes to the standards for preliminary injunctive relief in the US (the effects of which are admittedly detrimental to FOSS claimants), copyright law is still seen to provide a remedial framework that is better suited to responding to the specific harms of FOSS licence violations. Certainly, in many other jurisdictions around the world – Germany included – it remains the case that copyright law is more readily forthcoming with exclusionary remedies than the respective contractual regime.<sup>263</sup>

### ***(iii) A Graduated Approach to Enforcement***

While FOSS licence templates are drafted with the objective of ensuring that copyright claims arise on *any* violation, it does not necessarily follow that FOSS licensors must initiate an infringement claim for every violation. In practice, infringement claims are generally considered to be a last-resort measure for FOSS licensors.<sup>264</sup> Indeed, initiating any form of legal proceedings against another party in the FOSS context is a matter not to be taken lightly. Instead, FOSS licensors are encouraged to undertake preliminary steps to ensure compliance before resorting to litigation.<sup>265</sup>

As part of this graduated response, the initial step that licensors are encouraged to take on discovery of a violation is to notify the violating party of their infringement.<sup>266</sup> In

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<sup>263</sup> See, Haft et al, *Injunctions in cases of infringement of IPRs - Germany* (AIPPI, 10 May 2011) <[https://www.aippi.org/download/committees/219/GR219germany\\_en.pdf](https://www.aippi.org/download/committees/219/GR219germany_en.pdf)> accessed 28.08.17. It is also important to note that Directive 2004/48/EC on the enforcement of intellectual property right has implications for the grant of relief by member state courts.

<sup>264</sup> *Kuhn et al* (n 205) ('Legal action is a last resort. Compliance actions are primarily education and assistance processes to aid those who are not following the license.');

see also, Cotton, *How to Win the Copyleft Fight – Without Litigation* (Opensource.com, 14 July 2014) <<https://opensource.com/life/15/7/interview-bradley-kuhn-software-freedom-conservancy>> accessed 28.08.17.

<sup>265</sup> *Ibid*

<sup>266</sup> There are various guidelines outlining the steps right-holders should take if they discover a FOSS license violation, all of which outline the same basic compliance strategy. See, Kuhn, *A Practical Guide to GPL Compliance* (SFLC, 2008) <[www.softwarefreedom.org/resources/2008/compliance-guide.html](http://www.softwarefreedom.org/resources/2008/compliance-guide.html)> accessed 28.08.17; Kuhn et al, *Copyleft and the General Public License: A Comprehensive*

addition to putting them on notice (a standard procedural requirement in some jurisdictions),<sup>267</sup> this initial step affords the violating party an opportunity to choose between voluntary compliance or a cessation of all future use and/or distribution of the work. In most cases, the party will simply comply and the licensor will have no need to take any further compliance measures. Indeed, it is often the case that the violating party is not even unaware that they have incorporated FOSS in their code, let alone failed to meet certain obligations under the licence.<sup>268</sup> However, in cases where the party is aware of the alleged violation and refuses to comply with the initial notice, perhaps disputing the validity of the stated claims, then – and only then – will the licensor consider an infringement action.<sup>269</sup>

Accordingly, while FOSS licence templates are generally designed to automatically give rise to a claim for copyright infringement on violation, in practice the design primarily serves to provide the *threat* of such a claim.<sup>270</sup> This threat can then be leveraged to secure compliance. The guiding rationale behind this approach is that it shows greater sensitivity to the teleological objectives of FOSS licences.<sup>271</sup> In this regard, it does well to remember

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*Tutorial and Guide* (Free Software Foundation, 2014) Section 20.4, <<https://copyleft.org/guide/comprehensive-gpl-guide.pdf>> accessed 28.08.17; also see, *Kuhn et al* (n 205)

<sup>267</sup> For example, in Germany, as a procedural matter, claimants are required to send a cease and desist letter to the alleged infringer before instituting proceedings in court, see Section 97a UrhG.

<sup>268</sup> See, *Kuhn et al* (n 205) ('Most GPL violations occur by mistake, without ill will. '); see also, *Kuhn et al* (n 266) 94 ('[O]ur first assumption is that the violation is an oversight or otherwise a mistake due to confusion about the terms of the license.')

<sup>269</sup> Kuhn, *Some Thoughts on Conservancy's GPL Enforcement* (SFC, 1 February 2012) <<https://sfconservancy.org/blog/2012/feb/01/gpl-enforcement/>> accessed 28.08.17 (discussing the thought process behind GPL enforcement actions taken by the SFC).

<sup>270</sup> 'The point of the right in the open-source community is that it is not used; like the sword of Damocles, the point is not that it falls but that it hangs.' See, McGowan, *The Legal Implications of Open Source Software* (2000) U. Ill. L. Rev. 241, 303.

<sup>271</sup> See Section 2.1 above.

that the aim of compliance is to promote the teleological objectives. Aggressively asserting copyright claims against those who unknowingly or unintentionally incorporate FOSS into their code without observing the licence terms does little to promote those objectives.<sup>272</sup> Instead, such aggression and antagonism can have the opposite effect, creating ill-will towards FOSS actors and deterring others from participating in FOSS development and use by lending legitimacy to the FUD.<sup>273</sup>

The advantage of adopting a graduated response to licence violations is that it can transform compliance into a form of outreach. It becomes a way of educating others about FOSS licences and a way of extending the ‘invitation’ to those parties to participate in FOSS relations.<sup>274</sup> Furthermore, where the alleged violation is triggered by a party who is already participating in FOSS relations (e.g. a developer in a community, or even another FOSS project/community), then it is equally important to adopt a graduated approach to maintain trust and goodwill between developers, communities and projects. An aggressively litigious approach to FOSS licence violations is generally considered antithetical to the informal hacker ethic that underpins the FOSS relations – an ethic that places great value on dialogue as a means of resolving both technical and licensing disputes.<sup>275</sup> With that said, it is almost inevitable that there will be cases of intentional,

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<sup>272</sup> Some in the FOSS community have argued that aggressive licence enforcement has the unintended effect of undermining FOSS licence objectives, breaking down the relations of community and deterring potential participants. See, the debate over the merits of the ‘Busy-Box’ litigation: Linus Torvalds, *GPL Defense Issues* (26 August 2016) <<https://lists.linuxfoundation.org/pipermail/ksummit-discuss/2016-August/003580.html>> accessed 28.08.17. The Busy-Box saga is discussed below at Section 4.2.3.A.

<sup>273</sup> See (n 11)

<sup>274</sup> See, *Copyleft and the General Public License* (n 266) Section 20.4 (‘Our goal is to encourage violators to join the cooperative community of software sharing, so we want to open our hand in friendship.’); *Kuhn* (n 269) (‘Every enforcement action opens as a conversation, asking the violator to meet a few simple requests so that their permission to engage in copyright-governed activity can be restored, and they can go about their new business as a fine, upstanding, compliant Free Software redistributor.’)

<sup>275</sup> *Torvalds* (n 272) (‘Lawsuits destroy community. They destroy trust. They would destroy all the goodwill we’ve built up over the years by being nice [...] But quite apart from the risk of loss in a court, there

flagrant or even malicious licence violations in the FOSS context. In the event of such violations, the violating party is often unwilling to comply with the initial request, leaving the licensor no choice but to assert their copyright claim should they wish to prevent further harm. Thus, the graduated response allows for the licensor to adjust their response in accordance with the nature and severity of the violation.<sup>276</sup>

Generally, FOSS licence templates themselves do not dictate how licensors must respond to a licence violation. Most FOSS licence templates provide no guidance at all to the licensor on matters relating to compliance in practice. Instead, it is generally understood that licensors should adopt a graduated response as a matter of best practice.<sup>277</sup> This understanding has been developed over time in the FOSS community and has been documented in legal commentaries and informal guidelines.<sup>278</sup> With that said, there are certain FOSS licences that adopt a more prescriptive approach for dealing with licence violations. Most notably, the GPLv3 incorporates a provision that sets out a process for dealing with violations that terminate the licence.<sup>279</sup> The provision is essentially a

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real risk is something that happens whether you win or lose, and in fact whether you go to court or just threaten: the loss of community, and in particular exactly the kind of community that can (and does) help. You lose your friends.’)

<sup>276</sup> Particular concern arises in relation to ongoing or repeated violations. See, *Copyleft and the General Public License* (n 266) Section 20.2.

<sup>277</sup> There are a range of non-profit organisations or advocacy groups that offer legal support to the those who wish to pursue an action for licence violations. Notable examples in the US include the Software Freedom Law Center (SFLC) and the Software Freedom Conservancy (SFC). In Germany, there is [gpl-violations.org](http://gpl-violations.org) and the Institut für Rechtsfragen der Freien und Open Source Software (iFOSS).

<sup>278</sup> See above (n 266)

<sup>279</sup> Section 8, GPLv3 (‘Any attempt otherwise to propagate or modify it is void, and will automatically terminate your rights under this License [...] However, if you cease all violation of this License, then your license from a particular copyright holder is reinstated (a) provisionally, unless and until the copyright holder explicitly and finally terminates your license, and (b) permanently, if the copyright holder fails to notify you of the violation by some reasonable means prior to 60 days after the cessation. Moreover, your license from a particular copyright holder is reinstated permanently if the copyright holder notifies you of the violation by some reasonable means, this is the first time you have received notice of violation of this License (for any work) from that copyright holder, and you cure the violation prior to 30 days after your receipt of the notice.’)

formalised – and hence binding – manifestation of the graduated response.<sup>280</sup> It encourages parties towards voluntary compliance by establishing a grace period in which the violating party can self-cure their licence violation and avoid having their licence terminated indefinitely.<sup>281</sup> Admittedly, the provision does not prevent a licensor from bringing an infringement claim for a licence violation, but it sets out a more robust framework for the parties to resolve disputes without the need to resort to legal enforcement.<sup>282</sup> In this respect, the GPLv3 embodies a more nuanced and balanced approach to licence violations than its predecessor, the GPLv2, which is more draconian.<sup>283</sup>

In summary, this sub-section has highlighted how a copyright infringement claim is generally considered a last-resort measure. FOSS violations are meant to be dealt with through dialogue and voluntary compliance as this best aligns with the teleological objectives of the templates. Of course, this process of dialogue and voluntary compliance is only made possible because it is set against the background threat of an infringement claim. In this respect, the fact that licence templates have the specific enforcement objective of ensuring copyright claims arise on breach is significant because it provides licensors

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<sup>280</sup> See the rationale documents for the drafting and revision process of the GPLv3; e.g. *Rationale for the 1<sup>st</sup> Discussion Draft* (FSF, January 2006) <<http://gplv3.fsf.org/gpl-rationale-2006-01-16.html>> accessed 28.08.17. See generally, Moglen, *A History of the GPLv3 Revision Process* (SFLC, 2013) <[www.softwarefreedom.org/resources/2013/A\\_History\\_of\\_the\\_GPLv3\\_Revision\\_Process.pdf](http://www.softwarefreedom.org/resources/2013/A_History_of_the_GPLv3_Revision_Process.pdf)> accessed 28.08.17.

<sup>281</sup> See, Moglen and Stallman, *Transcript of Opening session of first international GPLv3 conference* (transcribed O’Riordan, 2006) [0h 54m 03s] <[www.ifso.ie/documents/gplv3-launch-2006-01-16.html](http://www.ifso.ie/documents/gplv3-launch-2006-01-16.html)> accessed 28.08.17 (discussing the rationale behind the GPLv3’s grace period).

<sup>282</sup> The effect of the provision is to ‘reinstate’ the licence. This means that the violation will still immediately and automatically terminate the licence and an infringement will likely occur. N.b. A recent case deals with the interpretation of this provision in accordance with German copyright law. See Section 4.1.3 below.

<sup>283</sup> It is repeatedly acknowledged throughout the drafting and revision process of the GPLv3 that the GPLv2’s automatic termination provision can lead to unfair results with respect to inadvertent violators. See, *Discussion Draft 1 of Version 3* (FSF, 16 January 2006) <<http://gplv3.fsf.org/comments/gplv3-draft-1>> accessed 28.08.17; see also, the rationale documents cited in Moglen (n 280)

with the necessary leverage to bring about voluntary compliance. Furthermore, it provides a framework of effective (i.e. exclusionary) remedies in the event that the preliminary enforcement measures are exhausted to no effect.

### **[2.3.2] Restrictions ‘Run with the Code’**

The second enforcement objective embodied in FOSS licence templates is to ensure that the restrictions ‘run with the code’ so that they are enforceable against any recipient of the code irrespective of how far removed they are down a chain of conveyance.<sup>284</sup> The rationale behind this objective is essentially one of control. Indeed, by making restrictions run with the code, a FOSS licensor can always retain control over their code and ensure that it remains ‘free’ and/or ‘open’ in accordance with the terms of their chosen licence template.<sup>285</sup>

Once again, copyright plays a central role in underscoring this specific enforcement objective. This is because copyright provides the default exclusionary mechanism by which right-holders can exclude anyone from performing restricted acts with code, irrespective of whether they had knowledge that it was subject to a FOSS licence template or otherwise. With that said, the objective of making restrictions run with the code is about more than

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<sup>284</sup> This expression is frequently used in legal scholarship on licensing. Indeed, the phenomenon of making restrictions ‘run with the asset’ or ‘run with the digital object’ has been the subject of much discussion in the literature. See, for example, Radin, *Humans, Computers, and Binding Commitment* (2000) 75 IND. L.J. 1125; Radin and Wagner, *The Myth of Private Ordering: Rediscovering Legal Realism in Cyberspace* (1998) 73 Chi-Kent L. Rev. 1295; Guadamuz, *Viral Contracts or Unenforceable Documents? Contractual Validity of Copyleft Licences* (2004) EIPR 26(8), 331; Robinson, *Personal Property Servitudes* (2004) 71 U. CHI. L. REV. 1449; Merges, *A New Dynamism in the Public Domain* (2004) 71 U. CHI. L. REV. 183; Van Houweling, *Touching and Concerning Copyright: Real Property Reasoning in MDY Industries v Blizzard Entertainment, Inc.* (2011) 51 Santa Clara. L. Rev. 1063; Van Houweling, *The New Servitudes* (2008) 96 Georgetown L. J. 885; Elkin-Koren, *What Contracts Can’t Do: The Limits of Private Ordering in Facilitating a Creative Commons* (2005) 74 Ford. L. Rev. 375; Anon., *On Enforcing Viral Terms* (2009) 122 Harv. L. Rev. 2184.

<sup>285</sup> Permissive Licence templates allow parties to incorporate FOSS into proprietary software and sell it as such.

just being able to exclude those who have exceeded or lack altogether the permission to perform restricted acts with the code. It is ultimately about ensuring that each recipient of the code is presented with the FOSS licence template on receipt of the work (or any derivative where applicable) so that they can exercise their freedoms in accordance with the terms of the template. Thus, FOSS licence templates rely on more than just copyright alone as a means by which to ensure the restrictions continue to keep the code ‘free’ and ‘open’ as it is conveyed through complex and diffuse networks. In discussing this objective, the section sets out some of the contextual and legal challenges that FOSS licensors face in retaining control over their code.

#### **[2.3.2.A] Contextual Considerations**

When proprietary developers convey software to their customers, they will typically rely on an array of contractual agreements to control, to the extent possible, the conveyance of that work all the way to the end-user. For example, where the software in question is designed to be embedded on a hand-held consumer device, then the developer will likely enter an agreement with an original equipment manufacturer (OEM) setting out the terms and conditions under which the software will be pre-installed on the device and then distributed.<sup>286</sup> In addition, the developer will also require the purchaser of the device to enter an end-user licence agreement (EULA). While a rather reductive example, it nonetheless serves to illustrate an important point: proprietary software developers typically rely on an array of contractual agreements to establish direct contractual

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<sup>286</sup> See, Kemp & Moynihan, *OEM Software Licence and Distribution Agreement* (Thomson Reuters: Practical Law, 2014)

relationships with each link in their distribution chain.<sup>287</sup> This ensures they have a degree of *control* over their work as it passes down the chain. For those that do not fall within the scope of this contractual framework, the developer can rely instead on their exclusive copyright as a means of excluding (but not controlling *per se*) their unauthorised use or distribution of the software.<sup>288</sup>

When a developer releases code to the public subject to a FOSS licence template, it is no less the case that they wish to retain control over that code as it is conveyed downstream, albeit for very different reasons to the proprietary developer (see teleological objectives). Whereas the proprietary developer can establish bespoke contractual relations with each link in her chain of conveyance, the FOSS developer encounters a very different set of environmental factors that require a different approach to be implemented through the FOSS licence template itself. In this respect, the templates are designed to account for various contextual factors when it comes to ensuring control over the code: e.g. the environment in which the code is disseminated, the number of parties and their relations *inter se*, and the means of control available to the licensor.

Indeed, when a developer releases their code to the public under a FOSS licence, they do so with the understanding that they are making it available to an indefinite number of recipients. Not only are they making it available to an indefinite number of direct recipients (i.e. those who receive the work directly from the developer), but they are also authorising – and expressly encouraging – those direct recipients to further convey the work and modified derivatives thereof to an indefinite number of additional recipients. This

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<sup>287</sup> For example, various types of agreement may be adopted vis-à-vis parties depending on the distribution model adopted by the right-holder, e.g. OEM agreements, Value-Added Reseller (VAR) agreements, publisher agreements, distributor agreements and so forth.

<sup>288</sup> Merrill and Smith highlight the distinction between ‘exclusion strategies’ of property law and ‘governance strategies’ of contract, noting how each offers a different form of control. See, Merrill & Smith, *The Property/Contract Interface* (2001) 101 Colum. L. Rev. 773

process is open to being repeated *ad infinitum*, generating a limitless number of possible links in the chain. For the FOSS developer, this has the potential to create a vast set of complex relations that are distinctly non-linear in nature.<sup>289</sup> These relations are in many ways a reflection of the complex networked environment in which FOSS is developed and deployed. This stands in stark contrast to the conventional proprietary distribution model; a model which is relatively closed and linear in comparison.<sup>290</sup> Certainly, for those operating under a proprietary model, it is much easier to identify recipients of the work and create bespoke contractual relations with each.<sup>291</sup> There is a greater sense of finiteness to the chain of conveyance; the standardised mass-market EULA providing the last link. FOSS licensors, however, are limited in their ability to pursue a similar strategy of targeted relations.<sup>292</sup>

Given all this, it is left solely the FOSS licence templates to ensure that the restrictions run with the code and that the licensor can maintain control even where it is conveyed through complex and open-ended networks. To achieve this objective, FOSS licence templates do two things. First, as already noted, the templates explicitly assert copyright in the work as a default, the basic premise being that any downstream party who has acquired the code without a licence template attached will potentially face an

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<sup>289</sup> See, Medappa et al, *Does the Task Structure of Open Source Projects Matter? Superposition and Value Creation* (ICIS, 2016) <<http://aisel.aisnet.org/cgi/viewcontent.cgi?article=1228&context=icis2016>> accessed 28.08.17 (discussing how independent layers of contributions are sequentially added one on top of the other over time in a non-linear fashion within FOSS projects).

<sup>290</sup> e.g. Developer > Distributor > End-User.

<sup>291</sup> Bespoke in the sense that the contractual terms will correspond to the specific activities that the party will perform in the chain of conveyance, e.g. a distributor will have certain rights and obligations that differ to those of a value-added reseller (c.f. the same template applying irrespective of the party and their intended role within the chain of conveyance).

<sup>292</sup> At least in so far as the licensing of the underlying code is concerned. Of course, right-holders may create bespoke contractual relations with a party ancillary to the FOSS licensing relationship. See, Brock, *Commercial Agreements in Shemtov & Walden* (n 19) 221 (discussing various aspects of such FOSS-related commercial agreements, e.g. support agreements, deliverables etc.).

infringement claim.<sup>293</sup> Secondly, the templates adopt various provisions that require recipients of the code to apply the same licence template – or, at the very least, the same copyright notice – to any reproduction or distribution of the code (including derivatives in the case of restrictive licences). In this respect, the templates ensure that the restrictions run with code through an ongoing process of self-propagation.

### **[2.3.2.B] Legal Limitations**

Copyright regimes routinely impose limitations on right-holders and their ability to control the use and distribution of copies of their work as they pass down a chain of distribution. These limitations have been traditionally justified on the basis that, *inter alia*, they protect the legitimate expectations of those who acquire ownership in copies and they facilitate competition and the creation of secondary markets.<sup>294</sup> For FOSS licence templates, these limitations have the potential to act as a serious obstacle to ensuring that the restrictions run with the code. As such, FOSS licence templates employ various features to ensure that – to the extent possible – such legal limitations do not undermine this important objective. This sub-section briefly introduces these legal limitations as they apply to software. How FOSS licence templates navigate these limitations will be covered in the following chapter.<sup>295</sup>

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<sup>293</sup> See discussion on the ‘Graduated Approach to Enforcement’ at Section 2.3.1.B(iii).

<sup>294</sup> For further discussion on the justifications underpinning these limitations, see, generally, Calboli and Lee (eds.) *Research Handbook on Intellectual Property Exhaustion and Parallel Imports* (Edward Elgar, 2016) Part I (focusing primarily on the theoretical framework behind exhaustion).

<sup>295</sup> See Section 3.3 below.

(i) ***First Sale / Exhaustion Doctrine***

The first sale doctrine (exhaustion doctrine) maintains that once a copy of a protected work has been sold – or ‘put into circulation on the market with the author’s consent’<sup>296</sup> – then the right-holder’s distribution right with respect to that copy is exhausted and all subsequent acquirers of that copy can freely distribute it without the right-holder’s permission.<sup>297</sup> Such a limitation clearly raises certain issues when it comes to ensuring that ‘restrictions run with the code’. Indeed, where the distribution right in a copy of FOSS is exhausted, the licensor loses the ability to restrict parties from distributing that copy through copyright, even if the party distributes in violation of the terms of the FOSS licence template. As a result, the first sale doctrine has the potential to undermine FOSS licensors’ ability to control their code as it is conveyed downstream, which in turn can threaten its status as ‘free’ and ‘open source’.

(ii) ***‘Essential Step’ / Lawful Acquirer Exception***

Copyright in software confers upon authors a very broad power to restrict the unauthorised reproduction of their work, including the power to restrict reproductions that are essential to the mere utilisation of software.<sup>298</sup> In recognition of this fact, both US and EU law-

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<sup>296</sup> The criterion for exhaustion under German copyright law; see Section 17(2) and Section 69c(3) of the UrhG. Discussed further at Section 5.1.1.B below.

<sup>297</sup> While the limitation is common to intellectual property regimes all over the world, doctrinal implementation can vary quite significantly between jurisdictions. Traditionally, the doctrine has applied only in respect of *tangible copies* of works; however, some jurisdictions, like Germany, have in recent years extended the doctrine to cover intangible copies of certain categories of works (e.g. software). These doctrinal issues will be discussed in greater detail in Chapters Five and Six.

<sup>298</sup> In the US, see, e.g., *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993) (establishing that the temporary reproduction of computer programs in RAM for the purposes of executing the program requires authorisation from the right-holder). Under EU law, Article 4(1)(a) of Directive 2009/24/EC (Software Directive) establishes that authorisation is required for similar acts.

makers set out exceptions that ensure that right-holders cannot unduly restrict uses that certain parties might make in accordance with legitimate expectations.<sup>299</sup> Thus, EU law provides that a ‘lawful acquirer’ of a computer program does not require authorisation to reproduce the work where such reproduction is ‘necessary for the use of the program by the lawful acquirer in accordance with its intended purpose’.<sup>300</sup> In the US, a similar exception states that it is not an infringement for ‘an owner of a copy’ to make another copy provided that it is created ‘as an essential step in the utilization of the computer program in conjunction with a machine’.<sup>301</sup> In this respect, these exceptions serve as a vital accompaniment to the exhaustion doctrine by ensuring that purchasers are not only free to distribute their copies without permission, but that they can also use the copies without needing to acquire a licence each time. Indeed, they serve an even more vital role irrespective of exhaustion by facilitating mere use which in most cases precedes further distribution. Thus, these types of copyright limitation can present similar problems for FOSS licence enforcement objectives in so far as they may limit the ability of FOSS licensors to control the use of works by any party.

### ***(iii) Overview***

In summary, we find that in pursuing the specific enforcement objective of making the restrictions run with the code, FOSS licence templates not only have to navigate the

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<sup>299</sup> In the US, the CONTU report recommended that such an exception be created to benefit users to ensure that rightful possessors can make use of their copy, see *CONTU Report* (n 30) Ch.1. Similar recommendations were made in the legislative process leading up to the enactment of Article 5(1) of the Software Directive, the EU leading to the creation of Article 5(1) of the Software Directive, see *Amended proposal for a Council Directive on the legal protection of computer programs*, COM (90) 509 final (1990). For commentary on the provisions of the EU Software Directive, see, *Dreier* (n 44) 322

<sup>300</sup> Article 5(1) of the Software Directive

<sup>301</sup> 17 U.S.C §117

complex and diffuse relations of the networked environment, but they must also find ways of navigating statutory limitations set out in national copyright laws. While the present section has not covered the specific means by which FOSS licence templates respond to these challenges in pursuing this objective, it has nevertheless highlighted the importance of the objective itself. Indeed, without the ability to control the code as it is conveyed through subsequent hands, FOSS licensors are deprived of the ability to ensure that the code is ‘free’ and ‘open’ in accordance with the terms of their licences.

#### **[2.4] Chapter Summary**

This chapter has conducted a thorough analysis of the objectives and mechanisms embodied in FOSS licence templates. In doing so, it has deconstructed the layered intentions of the licence drafters and highlighted how the ideational and functional dimensions of the templates are tightly interwoven. As shown, the objective of making software ‘free’ and ‘open source’ plays an important role in shaping the mechanisms and specific enforcement objectives embodied in the licence templates. As we progress through subsequent chapters and look to the construction of FOSS licence templates under both US and German law, it will be helpful to have an appreciation of how all these dimensions interact. Indeed, it is only with such appreciation and understanding that we can begin to assess whether and to what extent the licence templates – and by extension the entire FOSS licensing model – have been effectively embedded as a valid system within a system.

## **Chapter 3: FOSS Licence Templates – Drafting Techniques**

### **[3.0] Introduction**

This chapter continues the analysis of FOSS licence templates as the machinery by which the FOSS movement establishes its alternative ‘system within a system’. Whereas the previous chapter examined the objectives of FOSS licence templates and their related mechanisms, this chapter focuses on the specific drafting techniques that FOSS licence drafters employ to give effect to the objectives. More specifically, the chapter focuses on the drafting techniques employed to secure the ‘enforcement objectives’ as discussed in the previous chapter. There is considerable variation in the drafting techniques employed by different FOSS licence templates in achieving these objectives. To illustrate this, the chapter examines four popular FOSS licence templates: (i) the GPL, (ii) the Apache Licence, (iii) the Mozilla Public Licence and (iv) the MIT Licence. Not only are these some of the most popular and widely-used FOSS licences in practice, but more importantly they each adopt different techniques in pursuit of the specific enforcement objectives.

The overall aim of this chapter is to highlight how these drafting techniques play a crucial role in securing the functional and ideational objectives of FOSS licences. It reveals how specific features in the templates are so vital that they may be considered essential features. Furthermore, by highlighting the variation in drafting techniques, it makes it possible to evaluate in the following chapter whether the FOSS enforcement case law in Germany and the US sets a strong precedent for all types of FOSS template or only some.

To aid the discussion, the chapter will begin by briefly setting out some useful licensing terminology. This terminology will provide an analytical framework for discussing the drafting techniques and features employed by FOSS licence templates; one that will be called upon throughout the remainder of this thesis. Certainly, the terminology

has been employed in various guises in both the German and US case law and, as such, allows us to discuss the treatment and interpretation of the template features in each jurisdiction in a comparative manner.

### **[3.1] Licensing Terminology**

#### **[3.1.1] The Granting Clause**

The most basic element of any licence is the granting clause. All licences necessarily have such a clause; it is the *sine qua non* of a licence.<sup>302</sup> In terms of function, the granting clause is responsible for setting out the flow of permissions from the licensor to the licensee for the various forms of intellectual property involved.<sup>303</sup> While there is much debate over how a licence grant is conceptualised and expressed doctrinally, particularly in common law jurisdictions, it will suffice for now to settle on a purely functional description of the granting clause.<sup>304</sup> The granting clause will often stipulate whether the rights granted are exclusive or non-exclusive in nature, although it may sometimes require further interpretation.<sup>305</sup>

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<sup>302</sup> The grant is the operative part of the licence; the permissive element of the licence. For more background to the conceptual notion of the 'licence' under common law, see generally, *Newman* (n 120)

<sup>303</sup> See, *Vasudeva* (n 151) 169

<sup>304</sup> For common law treatment, see *Newman* (n 120). For a background on the conceptual treatment of the licence under German intellectual property law, see, Pahlow, *Lizenz und Lizenzvertrag im Recht des Geistigen Eigentums* (Mohr-Siebeck, 2006); Pahlow, *Das einfache Nutzungsrecht als schuldrechtliche Lizenz* (2005) ZUM 865; McGuire, *Die Lizenz: Eine Einordnung in die Systemzusammenhänge des BGB und des Zivilprozessrechts* (Mohr-Siebeck, 2012); Stumpf and Groß, *Der Lizenzvertrag* (8<sup>th</sup> ed., Beck, 2005); Hilty, *Lizenzvertragsrecht – Systematisierung und Typisierung* (Stämpfli, 2001).

<sup>305</sup> Further uncertainty may arise over whether the granting clause extends to cover other forms of intellectual property rights (e.g. patents and trademarks). This too may require further interpretation from courts. *Vasudeva* highlights the challenges of interpreting granting clauses of open source licences; see *Vasudeva* (n 151)

### [3.1.2] Restrictions

Licences routinely employ restrictive terms to limit and control the activities of the licensee. In the common-law literature and case law, these restrictive terms are typically categorised as either *conditions* or *covenants*.<sup>306</sup> This binary distinction between condition and covenant is often used as short-hand for distinguishing between, on the one hand, terms that give rise to copyright liability when violated and, on the other, those that give rise only to contractual liability.<sup>307</sup> A similar binary distinction is found in German law whereby licence restrictions are categorised as either *in rem (dinglich)* or *in personam (schuldrechtlich)*.<sup>308</sup> While this distinction can be useful in determining the form of liability that arises on violation of a given term (and hence the remedies made available to the right-holder), it is a rather reductive distinction that serves to obscure other ways in which restrictive licence terms may be differentiated. Accordingly, this sub-section will aim to set out more refined terminology on restrictive licence terms.

#### [3.1.2.A] Scope Limitations

Scope limitations are licence terms that limit the scope of the licence grant *ab initio*. If we view copyright as being comprised of a bundle of rights for which the right-holder may grant permissions, we may consider scope limitations as terms which stipulate which right or rights in that bundle are being granted to the licensee. Thus, when a licensee violates a

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<sup>306</sup> *Nimmer* (n 199) 209-216, 569-579; *Ard* (n 205) 321; *Gomulkiewicz* (n 196) 347; Menon, *Jacobsen Revisited: Conditions, Covenants, and the Future of Open Source Licences* (2011) 6 Wash. J. L. Tech. & Arts 311, 329; *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1089 (9th Cir. 1989); *Graham v. James*, 144 F.3d 229, 236-237 (2d Cir. 1998); *Sun Microsystems, Inc. v. Microsoft Corp.*, 188 F.3d 1115, 1122 (9th Cir. 1999); *Jacobsen v Katzer* 535 F.3d 1373, 1380 (Fed. Cir. 2008)

<sup>307</sup> *Nimmer & Nimmer, Nimmer on Copyright* (Revised ed., Lexisnexis, 2013) §10.15[A][1]

<sup>308</sup> See, Dreier & Schulze, *Urheberrechtsgesetz* (5<sup>th</sup> ed., C.H. Beck, 2015) §31 para. 29

scope limitation, they are effectively acting outside the scope of the licence grant by exercising rights or permissions that were never granted to them.<sup>309</sup> This means that violation of a scope limitation necessarily constitutes copyright infringement as the licensee lacked the relevant permission to perform the act *ex tunc* (i.e. ‘from the outset’).<sup>310</sup> For this reason, there is often a close nexus between a granting clause and scope limitations as they both work together to define the same thing; namely, the permissions granted to the licensee at the time of the grant.<sup>311</sup> It is important to note that scope limitations are considered binding *erga omnes* – i.e. they can be enforced against third-parties even if there is no privity of contract between the right-holder and the recipient.<sup>312</sup> Indeed, given that such restrictions limit the scope of the initial grant of rights, it follows from the principle of *nemo dat quod non habet* that the rights will be similarly limited in scope vis-à-vis a sub-licensee or subsequent acquirer of a copy.<sup>313</sup>

A scope limitation can be drafted as either a positive or negative statement. Take, for example, the following: (i) ‘*You may reproduce and distribute fifty copies of this work*’ or (ii) ‘*You may not distribute the work outside the United States*’. In both cases, the drafter has given a statement as to the scope of the grant of rights without using conditional or promissory language.<sup>314</sup> The result is that if the licensee reproduces fifty-one copies of the

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<sup>309</sup> *Nimmer on Copyright* (n 307) § 10.15[A][2]

<sup>310</sup> *c.f.* conditions which give rise to copyright liability *ex nunc* (‘from now on’).

<sup>311</sup> Under German law, scope limitations are conceptualised as the contours of a positive use right granted to the licensee (i.e. ‘*Beschränkte nutzungsrechte*’). See, Mezzanotte, *The Interrelation between Intellectual Property Licences and the Doctrine of Numerus Clausus: A Comparative Legal and Economic Analysis* (2012) *Comp. L. Rev.* Vol. 3 No.2, 38-39. The conceptualisation under common law is less clear in this respect, see, generally, *Newman* (n 120)

<sup>312</sup> Thus, they can be said to ‘run with the asset’ or ‘run with the code’, see Section 2.3.2 above.

<sup>313</sup> With the exception that the first-sale of a copy can exhaust certain rights in the work, meaning that the purchaser or subsequent acquirer can redistribute or use the copy notwithstanding scope limitations (see further discussion on exhaustion in Chapters 5 and 6)

<sup>314</sup> *C.f.* conditions and covenants, see Sections 3.1.2.B and 3.1.2.D below.

work or distributes a copy outside of the US, then they have acted outside the scope of the grant and are liable for infringement. It is important to note that such acts do not purport to trigger a change in the legal relationship (c.f. conditions). In this respect, the licensee still retains permission to distribute the fifty copies made pursuant to the grant and may continue to distribute in the United States without infringing copyright. With that said, terms that are designated as scope limitations may also be designated as conditions and, as such, may purport to trigger a change in existing legal relations.<sup>315</sup> Indeed, the line between scope limitations and conditions can be very ‘porous’ in this regard.<sup>316</sup>

### **[3.1.2.B] Conditions**

Conditions do not limit the grant of rights in the same way as scope limitations.<sup>317</sup> Instead of limiting the scope of the permission granted to the licensee *ab initio*, they limit the grant by stipulating a specific events or set of circumstances that trigger a change in the existing legal relationship.<sup>318</sup> In the copyright licensing context, ‘conditions’ usually trigger the termination of the licence and the loss of any rights previously enjoyed.<sup>319</sup> Whereas the breach of a scope limitation is an automatic infringement, the breach of a condition only

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<sup>315</sup> Indeed, a term may be both a scope limitation and a condition. The breach will constitute an act that falls outside the scope of the granted rights *and* triggers the loss of rights *ex nunc* that were initially granted. This blurring of the line between scope limitations and conditions is prevalent in common law licensing literature.

<sup>316</sup> *Ard* (n 205) 322

<sup>317</sup> Conditions can be said to limit the scope of the grant in a temporal manner in so far as a condition stipulates a future event that will – if satisfied - trigger a loss of rights. They do not, however, limit the scope of the grant in the same way as a scope limitation.

<sup>318</sup> For the prevailing US definition, see, *Corbin on Contracts* (n 197) §30.6 (“A “condition” is “an “operative” fact or event. This means that it is a fact or event that affects legal relations; it is a cause of some change in those legal relations. To say that the fact or event is a cause (or condition) of the change does not mean that it is the sole cause (or condition). It is merely one of the group of factors that is necessary to produce the change.’); see also, *Menon* (n 306) 330-332. A similar concept of ‘condition’ is expressed in Article 158 of the BGB.

<sup>319</sup> *Nimmer on Copyright* (n 307) § 10.15[A][3]; *Ard* (n 205) 321 ff.

gives rise to copyright liability in so far as the licensee continues to perform restricted acts with the work after having lost their rights. In this respect, copyright liability is deemed to arise *ex nunc* ('from that point onwards').

Conditions are typically drafted using conditional language and syntax.<sup>320</sup> Take, for example, the scope limitations (see above) reformulated as conditions: (i) '*You may reproduce and distribute this work provided you do not exceed 50 copies*' or (ii) '*You may distribute the work provided you do not distribute outside the United States*'. In both cases, the continued permission is conditional upon certain events occurring or not occurring; e.g. the licensee printing more than 50 copies of the work and/or distributing copies outside the US.

Unlike scope limitations, which limit the rights that a licensee may pass on to third-parties (*nemo dat*), conditions are not in themselves binding *erga omnes*. However, as already noted, licence terms may be designated as both conditions and scope limitations and, as such, have *erga omnes* effect.<sup>321</sup> Furthermore, conditions are often said to have third-party effects insofar as termination of a licence may indirectly terminate any sub-licences.

### **[3.1.2.C] Express Termination Conditions**

Express termination conditions are licence terms that expressly state that the licence agreement will terminate when a stipulated event occurs. In this respect, they are just like any other condition (see above), differing only in their use of express language. For example, if we reformulate the above restrictions as express termination conditions, we get the following: (i) '*Reproduction of more than 50 copies of the work will terminate the*

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<sup>320</sup> See, Adams, *A Manual of Style for Contract Drafting* (3<sup>rd</sup>. ed., ABA Publishing, 2013) 227-240

<sup>321</sup> See text above at (n 315)

licence’ and (ii) ‘Distribution of the work outside the United States will terminate the licence’. Like any condition, the breach of an express termination condition does not itself give rise to copyright liability, but renders any future reproduction or distribution an infringement.<sup>322</sup>

As will be shown, a common drafting technique adopted in FOSS licence templates is to use express termination conditions that can be characterised as ‘catch-all’ or ‘scatter-gunned’ in that they purport to terminate the licence upon *any* breach rather than limiting it to a specific act or event.<sup>323</sup>

### **[3.1.2.D] Covenants**

A ‘covenant’ is a licence term that is purely contractual in nature.<sup>324</sup> It follows that covenants can only be found in a contractual licence. A covenant is essentially a promise of the licensor to perform some action or refrain from performing a certain action.<sup>325</sup> Unlike ‘conditions’ where copyright infringement may ensue in the case of a breach, the violation of a covenant will only give rise to contractual liability, save where that covenant serves as a ‘termination condition’<sup>326</sup> or where the breach of covenant amounts to a repudiatory breach under common law.<sup>327</sup>

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<sup>322</sup> See Section 3.1.2.B above.

<sup>323</sup> See Section 3.2 below.

<sup>324</sup> They are sometimes referred to as a ‘mere’ or ‘pure’ covenants in common law literature. See, *Gomulkiewicz* (n 196) 344

<sup>325</sup> *Menon* (n 306) 331; see also, *Corbin on Contracts* (n 197) §30.12

<sup>326</sup> Alternatively, a covenant may be linked to a termination condition, in which case copyright liability may arise *ex nunc*.

<sup>327</sup> While there is no direct equivalent of material or repudiatory breach in German law, the German Civil Code recognises that a contract may be terminated where there has been a breach of a primary contractual obligation (*vertragliche Hauptleistungspflichten*), see Section 323 BGB or where performance is impossible, Section 326 BGB.

Restrictions that are mere covenants are usually distinguished on the basis that they do not amount to a limitation or condition. This is to say that a covenant does not expressly define the scope of the grant or adopt conditional language to link the restriction to either the grant or to the termination of the entire licence. Instead, terms that are intended to be mere covenants are often expressed through promissory language relating to the future performance or forbearance of some act.<sup>328</sup> For example, (i) ‘*You promise not to reproduce and distribute 50 copies of the work*’ or (ii) ‘*You promise not to distribute copies of the work outside the United States*’. While these restrictions are relatively similar to the previous examples in terms of substance, they differ in that they do not limit or conditionally link to the grant in anyway. As such, they are intended to form distinct and separate obligations that run in parallel to the grant.

Parties are generally free to create any form of covenant they so desire in accordance with the principle of freedom of contract, a relatively universal principle that is recognised in both Germany and the US.<sup>329</sup> With that said, covenants are often subject to scrutiny in accordance with both procedural rules (e.g. formation, incorporation of terms) and substantive rules (e.g. unfair terms) found in domestic contractual regimes.<sup>330</sup>

### **[3.1.2.E] Overview**

While drafters may express an intention to create a limitations, conditions, and covenants in licence templates through various drafting techniques, it is ultimately the task of courts

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<sup>328</sup> *Corbin on Contract* (n 197) §30.12

<sup>329</sup> German law recognises a broad principle of freedom of contract (*Vertragsfreiheit*), but also distinguishes between various different expressions of this freedom, e.g. freedom to enter into a contract (*Abschlußfreiheit*) and freedom to shape the conditions of a contract (*Gestaltungsfreiheit*). See, Markesinis, *The German Law of Obligations: The Law of Contract and Restitution – Vol. I* (Clarendon: Oxford, 1997) 28-29; see also, Foster & Sule, *German Legal System and Laws* (4th ed., OUP, 2010) 412

<sup>330</sup> See Sections 5.1.1.D(ii) and 5.2.1.B(ii) below.

to interpret the terms to determine their legal effect in accordance with the applicable law. Thus, whether a term is found to be a limitation, condition or covenant will ultimately depend on the interpretive approach undertaken by a court in accordance with domestic law. Given that interpretive approaches can vary significantly, what is considered a limitation in one jurisdiction may be interpreted as a covenant in another.<sup>331</sup> In this regard, it must also be noted that courts may prohibit certain terms from acting as scope limitations or conditions notwithstanding the clear intent of the drafter. This is because legal systems are known to place substantive or procedural limitations on what terms can and cannot form limitations and/or conditions in copyright licences. These substantive limitations may derive from copyright law; e.g. the ‘distinctive market’ requirement found in German copyright jurisprudence.<sup>332</sup> Alternatively, they may derive from other bodies of law; e.g. contractual rules dealing with unfair or surprising contract terms.<sup>333</sup> These substantive and procedural limitations will be discussed in greater detail in following chapters as they act as important constraints operating in the systems in which FOSS licence templates are embedded.

Without providing an exhaustive taxonomy of licensing terminology, this section has highlighted five key types of licence terms that will be useful for discussing the drafting techniques and features adopted by FOSS licence templates: (a) granting clauses, (b) scope limitations, (c) conditions, (d) express termination conditions, and (e) covenants. With this terminology, we will now turn to examine the four FOSS licence templates and discuss

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<sup>331</sup> Indeed, it may not be clear at all what the intent of the drafter was – i.e. whether to create limitation, condition, covenant.

<sup>332</sup> For a licence restriction to be enforceable as a scope limitation under German copyright law (i.e. as a limitation within the meaning of Section 31 UrhG), the restriction must reserve to the right-holder a form of use that is economically and technically distinguishable and separable as a modality of exploitation. See, Federal Court of Justice, No. I ZR 244/97 (06.07.2000) – *OEM-version*. This will be discussed in greater detail at Section 5.1.1.B(i) below.

<sup>333</sup> These limitations will be discussed in Chapter 5.

how their respective drafting techniques and features fare in terms of securing the specific enforcement objectives set out in the previous chapter.

### **[3.2] Drafting Techniques to Ensure Copyright Claims Arise on Violation**

How, then, do FOSS licence drafters ensure that licence violations give rise to a claim for copyright infringement? A review of some of the notable FOSS licence templates reveals that key restrictions are drafted as either (a) scope limitations, (b) conditions, or (c) mere covenants that are linked to an express ‘catch-all’ termination conditions, all of which can give rise to copyright claims on violation. In discussing the drafting techniques adopted for these different licence templates, it is important to remember that not all have been drafted with the same degree of legal expertise, participatory input, or oversight.<sup>334</sup> While most employ similar techniques in pursuit of the same enforcement objectives, minor variations can play a significant role in determining whether those outcomes are realised or not as will be shown in the following chapter.

#### **[3.2.1] The GNU General Public Licence (GPL)**

The GPLv2 and GPLv3 are two of the most-widely used FOSS licences in practice.<sup>335</sup> Both are the product of intensive discussion and drafting by a range of legal experts and advisors.

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<sup>334</sup> Indeed, Some FOSS licence templates – although none of the ones discussed here – have been drafted by layperson programmers, whereas others, like the GPLv3, are the product of an extended, democratic drafting process involving hundreds of legal experts, programmers and stakeholders (e.g. companies, public institutions and NGOs). On the question of layperson drafting, see Rosen’s discussion on programmers writing licence templates, *Rosen* (n 5) 98 (‘The same programmers who cringe when a lawyer attempts to write high-quality software feel no qualms about writing their own open source licences.’).

<sup>335</sup> Recent data suggests that there has been a relative decline in the usage of the GPL in comparison to some permissive licences. See, Bacon, *The Decline of the GPL?* (Opensource.com, 13 February 2017) <[https://opensource.com/article/17/2/decline-gpl?sc\\_cid=701600000011jVAAY](https://opensource.com/article/17/2/decline-gpl?sc_cid=701600000011jVAAY)> accessed 28.08.17. This finding is based on Blackduck Software’s analysis which puts GPLv2 usage at 18%, GPLv3 at 7% and MIT at 32%, see, *Top Open Source Licences* (Blackduck Software, June 2017) <[www.blackducksoftware.com/top-open-source-licenses](http://www.blackducksoftware.com/top-open-source-licenses)> accessed 28.08.17. However, some FOSS

Indeed, the revision process for the GPLv3 is considered by participants to be one of ‘the most important examples of genuinely democratic, participatory law-making that we have experienced so far in the 21<sup>st</sup> century’.<sup>336</sup> It is no surprise then that both the GPLv2 and GPLv3 are relatively robust in terms of the drafting techniques employed to ensure that copyright infringement claims arise on violation. It is also no surprise that there is a vast body of legal commentary that seeks to elucidate and reinforce the intended interpretation of these features of the templates (as even the most robust legal documents leave room for interpretation).

The GPLv2 and GPLv3 have nearly identical preambles that indicate to the reader the drafters’ clear intentions as to the legal consequences of non-compliance.<sup>337</sup> Both preambles employ the language of conditions to emphasise to the reader that the permissions and rights are contingent on the licensee upholding certain ‘responsibilities’.<sup>338</sup> Indeed, the final sentence of the preamble in both GPLv2 and GPLv3 expressly state that the acts of copying, distribution and modification are subject to ‘conditions’.<sup>339</sup> While it might be argued that the term ‘condition’ is used in the loose sense of the word (i.e. as synonymous with ‘term’, ‘provision’ or ‘clause’), when read in conjunction with the

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commentators have questioned the accuracy of the statistical methods use to generate these figures, see Phipps, *Is the GPL Really Declining?* (3 May 2017) <<https://meshedinsights.com/2017/05/03/is-the-gpl-really-declining/>> accessed 28.08.17.

<sup>336</sup> See, *Moglen* (n 280)

<sup>337</sup> See, GPLv2 and GPLv3.

<sup>338</sup> As noted by Menon, ‘the force of the language contained in the Preamble and the use of the word “condition” make it clear that the drafters of this license intend the provisions to be conditions that — if not adhered to — would change the legal relationship between the parties to the license.’ *Menon* (n 306) 336

<sup>339</sup> ‘The precise terms and *conditions* for copying, distribution and modification follow (emphasis added).’ See, GPLv2 and GPLv3.

substantive provisions of both licences, this argument is difficult to maintain.<sup>340</sup> Turning to consider the substantive terms of both licence templates, we find that both employ essentially similar features with only minor variations.

### *GPL Version 2*

The GPLv2 adopts a graduated approach when it comes to setting out the grant of rights and restrictions.<sup>341</sup> This approach sees the grant of rights spread over several clauses in a tiered manner, with specific restrictions applied to each successive tier. The first tier (Section 0) grants to the licensee unrestricted permission to run the program for any purpose.<sup>342</sup> The rationale behind this first tier is to ensure that passive end-users of the program do not have to engage with the licence restrictions unlike licensees who actively modify or distribute the work, the latter engaging in acts that the GPL seeks to control.<sup>343</sup> The second tier (Section 1) grants to the licensee permission to copy and distribute verbatim copies of the source code subject to certain restrictions:

You may copy and distribute verbatim copies of the Program's source code as you receive it, in any medium, *provided that* you conspicuously and appropriately

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<sup>340</sup> Corbin, *Conditions in the Law of Contract* (1919) 28 Yale L.J. 739, 743 ('The word "condition" [...] is sometimes used in a very loose sense as synonymous with "term," "provision," or "clause." In such a sense it performs no useful service; instead, it affords one more opportunity for slovenly thinking.');

see also, *Corbin on Contracts* (n 197) §30.6

<sup>341</sup> *N.b.* The graduated approach discussed here concerning the grant and restrictions should not be confused with the 'graduated response' to licence violations. On the latter, see Section 2.3.1.B(iii) above.

<sup>342</sup> 'The act of running the Program is not restricted, and the output from the Program is covered only if its contents constitute a work based on the Program (independent of having been made by running the Program).' Section 0, GPLv2. While this provision is not drafted in the conventional language of a granting clause, it nevertheless functions as a grant of rights.

<sup>343</sup> See *Zhu* (n 49) 159 (discussing the difference between passive and proactive licensees)

publish on each copy an appropriate copyright notice and disclaimer of warranty; keep intact all the notices that refer to this License and to the absence of any warranty; and give any other recipients of the Program a copy of this License along with the Program (emphasis added).<sup>344</sup>

It is clear that the restrictions here are intended to act as ‘conditions’ on the grant as indicated by the use of strong conditional language (e.g. ‘provided that’).<sup>345</sup> Indeed, by making the permission to ‘copy and distribute verbatim copies of the Program’s source code’ expressly conditional on the operative fact of compliance with the requirements, the GPLv2’s drafters have sought to remove any doubt as to the intended legal effect of non-compliance, i.e. failure to comply equals no permission.<sup>346</sup>

This basic structure adopted in Section 1 is then repeated in the following granting clauses.<sup>347</sup> Accordingly, the third tier (Section 2) grants to the licensee the permission to make, copy and distribute ‘works based on the Program’ (i.e. modifications), but again makes this permission conditional on further requirements.<sup>348</sup> The final tier (Section 3) grants to the licensee the permission to copy and distribute the program (modified or

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<sup>344</sup> Section 1, GPLv2.

<sup>345</sup> *Ibid*

<sup>346</sup> ‘The GPL, reduced to its essence, says: “You may copy, modify and redistribute this software, whether modified or unmodified, freely. But if you redistribute it, in modified or unmodified form, your permission extends only to distribution under the terms of this license.”’ *Moglen* (n 218)

<sup>347</sup> The basic structure being a grant and specific restrictions linked directly through a conditional structure.

<sup>348</sup> ‘*You may modify your copy or copies of the Program or any portion of it, thus forming a work based on the Program, and copy and distribute such modifications or work under the terms of Section 1 above, provided that you also meet all of these conditions: [...] (emphasis added).*’ Section 2, GPLv2. The section then sets out three conditions that must be met.

unmodified) in object/executable code, subject, of course, to a further set of conditions.<sup>349</sup> The overall effect of this graduated approach is to ensure that certain permitted acts are subject to specific conditional requirements, and that for each tiered clause there is a close nexus between the grant and the restrictions.<sup>350</sup> This close nexus serves as a clear indication of the conditional nature of restrictions; covenants, in contrast, are often structured as separate and ancillary to the grant.<sup>351</sup>

Finally, Section 4 of the GPLv2 sets out both a ‘scope limitation’ and a clear ‘express termination condition’, the latter ensuring that any non-compliance with the express terms of the licence results in its termination:

You may not copy, modify, sublicense, or distribute the Program except as expressly provided under this License. Any attempt otherwise to copy, modify, sublicense or distribute the Program is void, and *will automatically terminate your rights under this License* (emphasis added).<sup>352</sup>

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<sup>349</sup> ‘You may copy and distribute the Program (or a work based on it, under Section 2) in object code or executable form under the terms of Sections 1 and 2 above *provided that* you also do one of the following: [...] (emphasis added).’ Section 3, GPLv2. The section then sets out three conditions that must be met.

<sup>350</sup> Not only does this signal the conditional nature of the restrictions and the grant, but it also allows for easier navigation and interpretation of the licence restrictions. For example, a company that wishes to perform a certain act with the GPL’d code can immediately find the conditions that apply to that specific act. This in turn allows for the creation of comprehensive flow-charts that detail FOSS compliance measures, e.g. see, Coughlin, *Practical GPL Compliance: The Flowcharts* (2017) <<https://medium.com/@shanecoughlan/practical-gpl-compliance-the-flowcharts-85a071ca8cef>> accessed 28.08.17; see also, Reincke and Sharpe, *The Open Source Licence Compendium: How to Achieve Open Source Compliance (Version 1.0)* (Deutsche Telekom, 2 March 2015) <<http://opensource.telekom.net/oslic/releases/oslic.pdf>> accessed 28.08.17.

<sup>351</sup> See, *Adams* (n 320) 233 ff.

<sup>352</sup> Section 4, GPLv2.

For this clause, the drafters' intentions are unambiguous. The first sentence limits the scope of the grant by stating that rights do not extend beyond the express terms of the licence. The second sentence expressly acts as a 'catch-all' condition for ensuring that non-compliance with any term gives rise to copyright liability.<sup>353</sup> Thus, while the additional terms in the GPLv2 do not share such an explicit conditional nexus with grant of rights as do the tiered provisions (i.e. Sections 0-3), it is theoretically possible that they may generate copyright liability if violated given that they are linked directly to Section 4's express termination condition.<sup>354</sup>

Accordingly, it is through this combination of drafting techniques – i.e. limitations, conditions and an express 'catch-all' termination condition – that the GPLv2's drafters ensure that copyright claims arise on violation of any term.

### ***GPL Version 3***

The GPLv3 adopts a relatively similar approach to its predecessor in terms of structuring its licence provisions (at least with respect to copyright).<sup>355</sup> One notable difference in terms of structure is the introduction of a new 'Basic Permissions' clause (Section 2).<sup>356</sup> This

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<sup>353</sup> 'Automatic termination meant that nothing depended on our notification and it allowed us to work to get parties back into compliance by beginning from the proposition that they had already lost their right to distribute by the act of violation.' *Moglen and Stallman* (n 281) [0h 48m 52s] (discussing the intent behind the GPLv2's termination condition).

<sup>354</sup> With that said, most of the additional terms in the GPLv2 are not prescriptive in nature, i.e. they do not require the performance or forbearance of any action by the licensee. Instead they are largely descriptive; they set out certain aspects of the legal relationship and as such cannot be 'violated' or 'breached' by an act or omission of the licensee. Indeed, one cannot violate or breach a limitation of liability (Section 12), as it merely describes who will burden the risk for any damages if they arise.

<sup>355</sup> The GPLv3 makes some significant changes with respect to patents and digital rights management, but for the most part is directed at the 'preservation of principles' while ensuring the 'improvement of usability, clarity, compatibility and the international reach' of the licence. See, *Moglen and Stallman* (n 281)

<sup>356</sup> Section 2, GPLv3.

clause establishes a more formal footing for the distinction between passive end-user, whose mere use of the program is unlimited, and active licensees, whose additional ‘conveyance’ of any copies is subject to certain ‘*conditions*’:

This License explicitly affirms your *unlimited permission* to run the unmodified Program. [...] You may make, run and propagate covered works that you do not convey, *without conditions* so long as your license otherwise remains in force. [...] *Conveying under any other circumstances is permitted solely under the conditions stated below* (emphasis added).<sup>357</sup>

Having set out this basic permission, the licence template then goes on to list the various ways in which licensees are permitted to ‘convey’ copies of the program and the conditions that attach to such acts.<sup>358</sup> In doing this, the GPLv3 adopts the same graduated approach taken by the GPLv2 with each successive clause being comprised of a grant to perform a specified activity (e.g. to convey verbatim copies of the source code)<sup>359</sup> and a tailored set of conditions that limit its scope.<sup>360</sup> Again, the overall effect is to create a close nexus

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<sup>357</sup> *Ibid.*

<sup>358</sup> The terms ‘convey’ and ‘propagate’ are terms of art that are used to ensure the licences are detached from categories of national law. These definitions are set out in Section 0 (‘Definitions’) of the GPLv3. For commentary on the rationale, see *Moglen and Stallman* (n 281) (‘This strategy, of using a new term of art, “to propagate software”, not reflected in any particular copyright statute, reflects an overall drafting decision to attempt to cut the language of the license loose from any particular system’s copyright law. We now speak in terms that can be defined factually, in relation to the program, or in relation to the full set of exploitation rights, or use rights, distribution rights, that a particular territorial scheme of copyright may impose. To propagate, then, is to take any action concerning the program which is not one of those, namely the right of execution and the right of private tinkering and modification, which we regard as fundamental and uncontrollable by law.’). See also, Section 1.4.4.B on ‘internationalisation’.

<sup>359</sup> Section 4, GPLv3

<sup>360</sup> E.g. Sections 5(a)-(d) and 6(a)-(e), GPLv3

between each individual grant of permission and its respective restrictions.<sup>361</sup> This drafting technique clearly signals to the reader that the restrictions are intended to serve as conditions on the grant.<sup>362</sup>

Finally, the GPLv3 – like its predecessor – contains a scope limitation and ‘catch-all’ termination condition in the form of Section 8.<sup>363</sup> The new Section 8 differs slightly from Section 4 of the GPLv2, however, in that it sets out a formal process by which termination can be cured through voluntary compliance.<sup>364</sup> This serves as formal recognition of the widely-held view that FOSS compliance is best achieved through dialogue and voluntary compliance (albeit with the threat of an infringement claim present in the background).<sup>365</sup>

In summary, we find from reading both the GPLv2 and GPLv3 that each licence template employs unambiguous, conditional language along with certain devices that structure the terms, both *inter-* and *intra se*, to ensure copyright infringement claims arise on any violation.

### **[3.2.2] The Apache Software Licence (ASL)**

The Apache Software Licence (ASL) is a permissive licence drafted and maintained by the Apache Software Foundation.<sup>366</sup> Unlike the GPL, the ASL does not have a preamble that

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<sup>361</sup> Menon notes how some of the new provisions added to the GPLv3 do not employ the ‘traditional contract language denoting conditions’. For example, Menon points out how the Anti-DRM provision in Section 3 lacks any language indicative of either conditions or covenants. However, she resolves the issue by simply noting that the termination condition in Section 8 nevertheless renders the issue a moot point. Thus, not all clauses embody a strong nexus. See, *Menon* (n 306) 339-340

<sup>362</sup> *Ibid* 338-339

<sup>363</sup> Section 8, GPLv3

<sup>364</sup> See, *Moglen and Stallman* (n 281)

<sup>365</sup> See Section 2.3.1.B(iii) above.

<sup>366</sup> *Apache License* (n 129)

sets out the drafters' intentions regarding the consequences non-compliance.<sup>367</sup> Notwithstanding, the licence template adopts a similar approach to that of the GPL in setting out its restrictions in the body of the licence. The ASL's granting clause (Section 2) explicitly states that the grant of all rights is made 'subject to the terms and conditions of the licence', indicating that the relevant restrictions set out in subsequent provisions are intended to limit the scope of the grant in a conditional manner.<sup>368</sup> Furthermore, the ASL has a specific provision dealing with the specific act of 'redistribution' that both grants the relevant rights for the act and simultaneously makes them conditional on the observance of certain restrictions, ensuring a clear nexus between the two.<sup>369</sup>

What is particularly notable about the ASL, however, is that it does not have a provision that acts as an express 'catch-all' termination condition.<sup>370</sup> This effectively means that the ASL's drafters have relied solely on the licence restrictions being deemed scope limitations or conditions for copyright liability to arise on violation of the terms.<sup>371</sup> As such, the ASL is arguably not as robust as the GPL in terms of securing copyright claims as a specific enforcement objective. Indeed, if a restriction were to be deemed a mere covenant, then there would be no back-up measure to ensure effective remedies for breach of that

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<sup>367</sup> *Ibid*

<sup>368</sup> Section 2, Apache Licence.

<sup>369</sup> Section 4, *Ibid*

<sup>370</sup> The Apache Licence does have an express termination condition that applies only in respect of the patent grant. See, Section 3, Apache Licence ('If You institute patent litigation against any entity (including a cross-claim or counterclaim in a lawsuit) alleging that the Work or a Contribution incorporated within the Work constitutes direct or contributory patent infringement, then any patent licenses granted to You under this License for that Work *shall terminate as of the date such litigation is filed* (emphasis added).')

<sup>371</sup> Menon highlights and discusses this potential lacuna in the licence, see *Menon* (n 306) 345-346

term.<sup>372</sup> In this regard, it is important to highlight that not all licences rely on the same multi-pronged approach of scope limitations, conditions and express termination conditions to ensure effective remedies are made available for violations.<sup>373</sup>

### [3.2.3] The Mozilla Public Licence

Whereas the ASL relies solely on the restrictions being deemed scope limitations or conditions to ensure copyright claims arise on violation, the Mozilla Public Licence (MPL), or at least the initial version of the MPL, is a licence template that appears to rely primarily on a single ‘catch-all’ termination condition.<sup>374</sup> The Mozilla Public Licence (MPL) is a weak-copyleft licence drafted and maintained by the Mozilla Foundation.<sup>375</sup> As a weak-copyleft licence, the MPL borrows certain features from the GPL, but differs in certain respects. Notably, the initial version of the MPL (MPLv1) was drafted in such a way that it calls into question the nature of the restrictions.<sup>376</sup> For example, the MPLv1’s granting clause (Section 2) appears to grant to the licensee unrestricted permission to ‘use, reproduce, modify, display, perform, sublicense and distribute the Original Code (or portions thereof) with or without Modifications, or as part of a Larger Work’ without

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<sup>372</sup> For example, if the ASL’s terms are found to be enforceable only as contractual covenants due to the imposition of substantive limitations on the creation of conditions (e.g. Germany’s distinctive market test or the ‘nexus test’ set out in *MDY Industries v Blizzard*, see Section 5.1.1.B(i) and 6.2.2.A respectively), then there will be no other route to establishing copyright liability.

<sup>373</sup> It is important to note that the Artistic Licence at the centre of the US case of *Jacobsen v Katzer* (discussed in detail below at Section 4.2.2) does not contain a catch-all termination condition. However, it does include a termination condition that applies in relation to patent litigation akin to the ASL. See, Section 13, *Artistic Licence 2.0*, at <<https://opensource.org/licenses/Artistic-2.0>>

<sup>374</sup> *Mozilla Public License 1.0* <<http://website-archive.mozilla.org/www.mozilla.org/mpl/MPL/1.0/>> accessed 28.08.17. [Hereafter MPLv1]

<sup>375</sup> For more on the notion of ‘weak copyleft’, see FOSS licence taxonomy at Section 1.4.5.

<sup>376</sup> See, *Menon* (n 306) 348

making that grant conditional or limited in any way.<sup>377</sup> There are no limiting or conditional phrases in this granting clause (e.g. ‘subject to conditions’ or ‘provided that’), nor are there any cross-references to the restrictive terms that are found elsewhere the licence.<sup>378</sup> Furthermore, the restrictive terms that are set out in Sections 3.1-3.7 of the licence are grouped under the clause heading ‘Obligations’.<sup>379</sup> To the reader, this might suggest the restrictions are merely covenants, i.e. obligations that arise as a result of a *promise* to render future performance (c.f. conditions).<sup>380</sup> Certainly, there is a distinct lack of conditional language in the restrictions, which simply state that the licensee ‘may’ or ‘must’ do certain actions when exercising permissions.<sup>381</sup> All of this is not dispositive as to whether the restrictions may or may not be interpreted as scope limitations or conditions, but the lack of clarity certainly casts doubt over the drafters’ intentions in this regard. Fortunately for licensors, the MPLv1 contains a provision that ensures that the licence terminates automatically should the licensee fail to comply with any of the terms (i.e. an express ‘catch-all’ termination provision).<sup>382</sup> Thus, the MPLv1 highlights the importance of ‘catch-all’ termination conditions as a fail-safe feature to ensure that licence violations will give rise to copyright infringement claims, even where the restrictions are held to be mere

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<sup>377</sup> Section 2, MPLv1.0

<sup>378</sup> *Menon* (n 306) 348 (‘[W]hile the user may be implicitly promising to adhere to the license terms [of the MPLv1.0] by using code that is made available through this license, the user’s ability to use the code is not contingent upon following the license terms. The user may face repercussions for not adhering to the license terms, but the user’s ability to obtain the license is separate and independent from these obligations.’)

<sup>379</sup> Section 3, MPLv1.0

<sup>380</sup> On the promissory character of covenants, see *Menon* (n 306) fn.215

<sup>381</sup> For example, instead of stating in a conditional manner that the licensee can distribute the work provided that relevant notices are maintained, the MPLv1.0 states that the licensee ‘must duplicate the notice in Exhibit A in each file of the Source Code, and this License in any documentation for the Source Code, where You describe recipients’ rights relating to Covered Code.’ Section 3.5, MPLv1.0.

<sup>382</sup> Section 8, MPLv1.0.

covenants,<sup>383</sup> whether as a result of the interpretation given by the courts or due to the application of substantive limitations on conditions.<sup>384</sup>

Interestingly, the MPL underwent a major revision in 2012 which, *inter alia*, saw the drafters resolve much of the ambiguity surrounding the intended effect of the restrictions.<sup>385</sup> Accordingly, the MPLv2.0 now contains express conditional language that ties the restrictions to the grant, leaving no uncertainty as to the drafters' intent. Arguably, this suggests that the drafters were aware of the MPLv1.0's shortcomings regarding the implementation of the specific enforcement objective.<sup>386</sup>

### [3.2.4] The MIT Licence

The final licence template to consider is the MIT Licence. The MIT licence is an extremely permissive licence that originated at the Massachusetts Institute of Technology and has since become the most popular FOSS licence in use according to 2017 analytics.<sup>387</sup> The defining characteristic of the MIT licence template is its simplicity and extremely

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<sup>383</sup> 'The net effect of the existence of these covenants, however, leads to the same result as if these terms were in fact conditions, because of the existence of the termination provision in Section 8 of the license.' *Menon* (n xxx) 349

<sup>384</sup> For discussion on substantive limitations, see Chapters 5 and 6.

<sup>385</sup> The licence revision process sought to address a number of other issues such as licence compatibility. See, Mozilla Corp. *About MPL 2.0: Revision Process and Changes FAQ*, <[www.mozilla.org/en-US/MPL/2.0/Revision-FAQ/](http://www.mozilla.org/en-US/MPL/2.0/Revision-FAQ/)> accessed 28.08.17.

<sup>386</sup> It may also be attributed to the drafters' stated aim of simplification. See, *FAQ* (n 385) ('The primary change [to the MPLv1.1] is simplification. [...] License headers have been made shorter, and notification requirements have been simplified. Overall, the license is substantially shorter and should be easier to understand.')

<sup>387</sup> At the time of writing, the MIT Licence is ranked as the most popular FOSS licence according to the annual analysis of Black-Duck Software, a company that specialises in open-source logistics and governance. See, *Top Open Source Licences* (n 335)

permissive nature.<sup>388</sup> It is similar in many ways to the BSD family of licences in this respect, both of which are considered popular ‘academic’ licences.<sup>389</sup>

What is interesting to note about the MIT licence in terms of its approach to setting out restrictions – as minimal as they may be – is that it does not differ greatly from other more detailed and complex restrictive licence templates. Indeed, the MIT licence illustrates how the creation of ‘conditions’ can be achieved with even the most basic of features. Thus, the MIT licence simply states that ‘permission is hereby granted [...] subject to the following conditions’ and then proceeds to list a single condition: namely, that the ‘copyright notice this permission notice shall be included in all copies or substantial portions of the Software’.<sup>390</sup> The intention is unmistakable: the restriction is designated as a condition on the grant. However, the MIT licence template does not adopt a fail-safe ‘express termination condition’.<sup>391</sup>

### **[3.3] Drafting Techniques to ensure Restrictions Run with the Code**

As discussed in the previous chapter, FOSS licence templates have the objective of making sure that the restrictions run with the code so that they may be enforceable against any recipient no matter how far removed.<sup>392</sup> While copyright provides a default mechanism with which to exclude those who act outside of – or lack altogether – the relevant

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<sup>388</sup> The licence is essentially comprised of just a single clause (not including the disclaimer). See, the *MIT License* (n 131)

<sup>389</sup> See, *Rosen* (n 5) 85-87

<sup>390</sup> *MIT License* (n 131)

<sup>391</sup> See Section 3.1.2.C above.

<sup>392</sup> Making the templates attach and ‘run with’ the code plays an equally important role in ensuring that the relevant permissions are granted to all recipients. Indeed, this ensures that all downstream recipients are aware of the rights that they have in relation to the use, modification and distribution of the code; not just the restrictions.

permission to use the code, the FOSS licence templates also set out a variety of additional features to ensure that the restrictions themselves run with the code as it is conveyed through complex and diffuse networks. This section examines the various drafting techniques adopted by FOSS licence templates to ensure this objective.

### [3.3.1] The GPL (Versions 2 and 3)

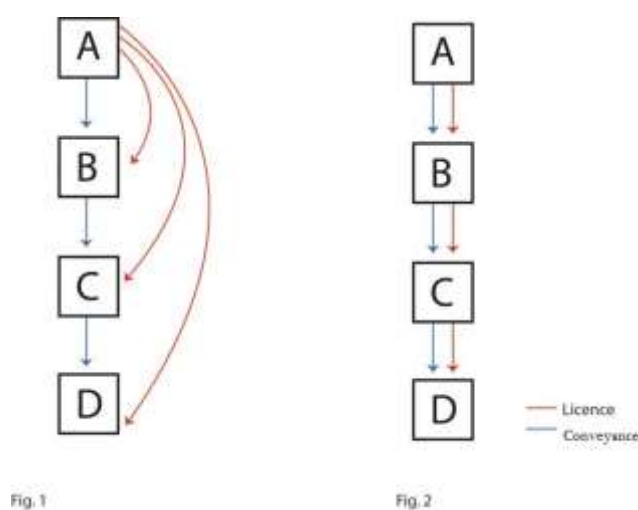
As already demonstrated, both the GPLv2 and GPLv3 are robust in their approach to ensuring that copyright claims arise on licence violations. When it comes to ensuring that the licensor has control of the work down a chain of the conveyance, the GPLv1 and GPLv2 adopt drafting techniques and features that are equally robust. First, both the GPLv2 and GPLv3 explicitly state that the licensor asserts copyright in the work and that any and every reproduction, modification and/or conveyance of the work must be pursuant to – and in accordance with – the terms of the licence. This is set out both in the preamble and the substantive body of each licence template.<sup>393</sup> Accordingly, both licence templates reaffirm the basic premise that copyright acts as the default exclusionary mechanism. Having established this basic premise, both GPLv2 and GPLv3 go on to explicitly state that *any* recipient of the work automatically receives a licence to use, modify and redistribute the work *directly from the initial licensor*.<sup>394</sup> This direct licence is established automatically irrespective of how – and from whom – the recipient received the code. This means that when a GPL licensee conveys the code to subsequent downstream parties, they do not act

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<sup>393</sup> See Preamble, GPLv2 and GPLv3, ('Developers that use the GNU GPL protect your rights with two steps: (1) assert copyright on the software, and (2) offer you this License giving you legal permission to copy, distribute and/or modify it.'). See also, Section 4, GPLv2 and Section 8 GPLv3 ('You may not propagate or modify a covered work except as expressly provided under this License.')

<sup>394</sup> Section 6 GPLv2 and Section 10 GPLv3 ('Each time you redistribute the Program (or any work based on the Program), *the recipient automatically receives a license from the original licensor* to copy, distribute or modify the Program subject to these terms and conditions (emphasis added).')

as a sub-licensor. They do not grant any rights to the recipient, nor do they impose any restrictions on the immediate recipient.<sup>395</sup> Indeed, the GPLv3 explicitly forbids licensees from sub-licensing, stating that it is unnecessary given the presence of the direct licensing provision.<sup>396</sup> We can therefore express this direct licensing relationship established by the GPL in the following manner (see *fig 1*) and compare it to the traditional sub-licensing relationship (see *fig 2*):



From this diagram, it is possible to see that the legal relationships between the parties are very different. The advantage of adopting this approach is clear when we consider the effect it has on, *inter alia*, ensuring that the right-holder (A) has control of the work as it passes down the chain of conveyance.

In *Fig 2*, the initial licensor (A) can control the downstream parties, but only to the extent that their acts fall outside the scope of the initial grant. Thus, where a licence

<sup>395</sup> Where the licensee contributes their own modifications, then that licensee will grant rights in respect of their work and impose restrictions accordingly. For more on the conveyance of modifications, see Section 3.3. below.

<sup>396</sup> The GPLv2 template does not expressly forbid sub-licensing in its provisions. However, it does contain a direct licensing provision which renders sub-licensing unnecessary. Section 2 of the GPLv3 explicitly forbids sublicensing ('Sublicensing is not allowed; section 10 makes it unnecessary.')

restriction in the primary licence (A-B) is deemed to act as a scope limitation, then it will act as a scope limitation in each successive sub-licence, making any violation of that restriction by B, C, or D an infringement of A's copyright. This is in accordance with the principle of *nemo dat* which holds that each sub-licensor can grant no more rights than they themselves have received.<sup>397</sup> There are, however, a few things that may frustrate A's ability to control the work down the chain of conveyance under the traditional sub-licensing model. First, given that each party has a direct licensing relationship with their immediate downstream recipient, there arises the possibility that they may try to bring a claim themselves for downstream violations.<sup>398</sup> As a practical matter, this just complicates the task of enforcement, by disaggregating both the power and the perceived responsibility for addressing licence violations.<sup>399</sup> Second, and perhaps more importantly, in the event that the restrictions in the licence template are deemed to be mere covenants, then they will only be enforceable between the sub-licensor and the sub-licensee, thus limiting the licensor's ability to control the work downstream. This is because the traditional sub-licensing model fails to establish privity of contract between the initial licensor and the

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<sup>397</sup> See text above at (n 313)

<sup>398</sup> Such a claim would have to sound in contract as a non-exclusive sub-licensor is unlikely to have standing to sue for copyright infringement. On the question of legal standing of non-exclusive licensees under US and German law, see Engelhardt, *Drafting Options for Contributor Agreements for Free and Open-Source Software: Assignment, (Non)Exclusive Licence and Legal Consequences. A Comparative Analysis of German and US Law* (2013) 10:2 SCRIPTed 148

<sup>399</sup> To remove doubt any doubt, the GPL templates explicitly state that the licensee is not responsible for enforcing compliance, see, Section 6 of the GPLv2 and Section 10 ('You are not responsible for enforcing compliance by third parties to this License.')

sub-licensees.<sup>400</sup> Again, this highlights how important it is – for the sub-licensing model at least – that the restrictions are deemed to be scope limitations and/or conditions.<sup>401</sup>

By contrast, the direct licensing provision found in the GPL ensures, first of all, that the power and responsibility for addressing licence violations is centralised in the hands of the original licensor.<sup>402</sup> More importantly, it ensures that there is a direct relationship between each recipient of the work for the purposes of privity of contract should the licence template be deemed to form a contractual relationship.<sup>403</sup> This means that any restrictions that are found to be mere covenants will still be enforceable by the original licensor irrespective of how far removed the violating party may be. Thus, once again, the GPLv2 and GPLv3 take a very robust approach to ensuring that the right-holder has control over the code.

When it comes to the downstream conveyance of modified works, the GPL adopts further measures to ensure that the right-holder maintains control and that the restrictions continue to run with the modified code. In many instances, the modification of a work will lead to the creation of a derivative or collective work with its own distinct copyright.<sup>404</sup> This new copyright will vest in the author of the modification (i.e. the downstream licensee)

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<sup>400</sup> For further discussion on privity and control of downstream users, see *McGowan* (n 270) 289; *Merges, The End of Friction? Property Rights and Contract in the “Newtonian” World of Online Commerce* (1997) 12 Berkeley Tech. L. J. 115, 128-29

<sup>401</sup> Provided the condition is passed on in the sub-licence, then a downstream breach will also result in loss of rights and the initial right-holder/licensor will be able to enforce their copyright against that downstream party, notwithstanding the lack of privity.

<sup>402</sup> At least for verbatim copies. For discussion on the control of downstream modifications, see Section 3.3. below.

<sup>403</sup> There is debate in US scholarship as to whether FOSS licence templates do in fact constitute valid contractual agreements, see Section 4.2.1.A below.

<sup>404</sup> Whether a modification by a downstream licensee leads to the creation of a ‘derivative work’ will depend on a range of criteria. These criteria can vary depending on the jurisdiction. For discussion on what constitutes a sufficient contribution under US law, see *Vasudeva* (n 37) 97

and, as such, will have the potential to alter the nature of the legal relationship between the original licensor and subsequent downstream parties.<sup>405</sup> The GPL template responds to the creation of derivative works through a combination of provisions that ensure that each contributor (i.e. modifying licensee) maintains control over their respective contribution. First, the GPL states that the initial licensee has the permission to convey a ‘work based on the program’ (i.e. a modified or derivative work),<sup>406</sup> but makes that permission conditional on the licensee conveying that work subject to the same licence template.<sup>407</sup> This means that when the licensee conveys the modified work downstream, the subsequent recipient is presented with the GPL template for the new work, but receives a direct licence from both the initial licensor and licensee in respect of each individual’s contributions.<sup>408</sup> Again, this direct licence from the initial licensor to the downstream recipient arises automatically as a result of the direct licensing provision found in Sections 6 and 10 of the GPLv2 and GPLv3 respectively. We can therefore express the legal relationship between the parties in the following manner:

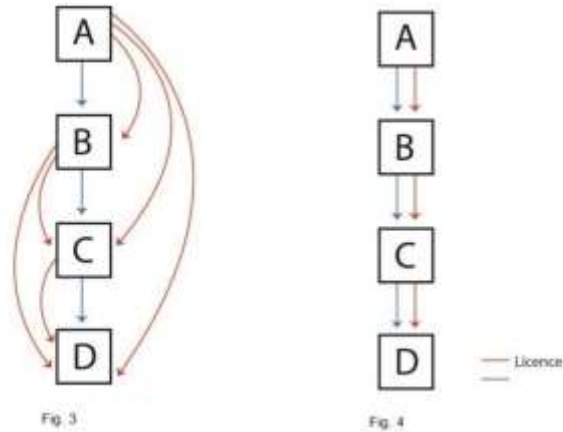
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<sup>405</sup> See, 17 U.S.C. §103(b)

<sup>406</sup> In the US, there is significant debate as to whether the GPL’s notion of a ‘work based on the program’ is synonymous with the legal definition of ‘derivative work’ or whether it extends to encompass material outside of that definition. See, *Vetter* (n 125); *Rosen* (n 5) 116; *Vasudeva* (n 37) 96 ff.

<sup>407</sup> See, Section 2 GPLv2 and Section 5 GPLv3.

<sup>408</sup> Only the author-contributor can grant rights in respect of their contribution, see, e.g., 17 U.S.C. §103(a)



In *Fig. 3*, we see the nature of relations between parties as structured in accordance with the terms of both the GPLv2 and GPLv3. By contrast, *Fig. 4* depicts the nature of the relations under a licence template that explicitly grants the licensee the right to sub-licence or re-licence the modified work without also providing direct licensing provision.<sup>409</sup> The clear advantage of the approach taken by the GPL is that it ensures the initial licensor has direct control over *modified* copies of their work downstream in much the same way as the licensor has control over *verbatim* copies (see above).<sup>410</sup> As we shall see, the same cannot be said for other licence templates.

Finally, as noted in previous chapter, FOSS licence templates must also navigate certain legal limitations to ensure that the right-holder can retain control over the work downstream; namely, the first sale doctrine and the essential step exception.<sup>411</sup> In this

<sup>409</sup> In this scenario, the licensee who modifies the original work may sub-licence the rights to the original parts and make a distinct grant of rights for their own contributions.

<sup>410</sup> The initial licensor retains control over the code so long as it embodies their original work. This raises interesting questions over the degree to which the initial licensor's contribution may be diluted through iterative modifications by downstream parties before the initial licensor loses the ability to enforce their copyright; see, Van Houweling, *Author Autonomy and Atomism in Copyright Law* (2010) 96 Va. L. Rev. 549, 621 ff. (discussing concerns over the 'fragmentation' of ownership in collaborative digital works)

<sup>411</sup> See Section 2.3.2.B above.

respect, the GPL drafters ensure that the templates are explicitly characterised as forming a ‘licence’ and not part of a ‘sale’.<sup>412</sup> Under US law, it is only the ‘sale’ of a tangible copy (i.e. the authorised transfer of ownership in that copy) that is sufficient to trigger these copyright limitations. Whether this approach of simply calling the GPL a licence is sufficient to avoid these legal limitations under US or German law is subject to debate.<sup>413</sup> Indeed, this question will be examined in further detail later in the thesis.

### [3.3.2] The Apache Software Licence

Like other FOSS licence templates, the ASL operates on the basic premise that, but for the licence, the performance of any copyright-restricted acts in relation to an ASL-covered work will constitute an infringement of the copyright in that work.<sup>414</sup> Thus, downstream recipients of a work licensed under the ASL must have a licence – and must act within its scope – otherwise the right-holder may seek to exclude them on the basis of their copyright.

Unlike the GPL, however, the ASL does not contain an express provision stating that all recipients of the work automatically receive a direct license from the original licensor. Instead, the ASL is rather conflicted in its approach to structuring the relations of downstream conveyance. The ASL’s granting clause states that ‘each Contributor’ grants to the licensee the relevant rights in their contribution, indicating that there may nevertheless be a direct licensing relationship between each contributor and each recipient

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<sup>412</sup> See generally, *Gomulkiewicz* (n 4)

<sup>413</sup> Under German law, the notion of a ‘licence contract’ does not easily fit within the contractual typology set out under the BGB. Accordingly, there is much debate as to whether, for example, a licence contract for the use of a work may trigger exhaustion. See below (n 955).

<sup>414</sup> N.b. When applying the ASL to their work, the right-holder must to attach a boilerplate notice which explicitly asserts copyright in the work.

(See, *Fig 1* and *Fig 3* above).<sup>415</sup> However, the very same clause confers on licensees the power to grant sub-licences.<sup>416</sup> Accordingly, it is possible that each downstream licensee who conveys the work, either modified or unmodified, is granting to the immediate recipient of that code their rights to use, modify and distribute it (See *Fig 2* and *Fig 4* above). Given this, it is possible that the original licensor may be unable to sue a downstream sub-licensee for breaching a restriction in the ASL where that restriction is found to be a mere covenant. In such circumstances, the restriction will only be enforceable by the immediate sub-licensor as the initial licensor will lack the necessary privity of contract.<sup>417</sup>

Notably, the ASL lacks an express ‘catch-all’ termination condition akin to Section 4 of the GPLv2; a feature that may have otherwise ensured that breach of any term, including mere covenants, would terminate the sub-licence and render any future use by that sub-licensee an actionable infringement by the initial licensor (i.e. right-holder). Thus, for the initial licensor to ensure that they have full control over the work as it passes down the chain of conveyance, it is important that the ASL’s restrictions are held to be scope limitations and/or conditions.<sup>418</sup>

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<sup>415</sup> Section 2 ASL (‘Grant of Copyright License: Subject to the terms and conditions of this License, *each Contributor* hereby grants to You a perpetual, worldwide, non-exclusive, no-charge, royalty-free, irrevocable copyright license to reproduce, prepare Derivative Works of, publicly display, publicly perform, sublicense, and distribute the Work and such Derivative Works in Source or Object form (emphasis added).’)

<sup>416</sup> *Ibid*

<sup>417</sup> Under the traditional sub-licensing model, the original licensor can only sue downstream sub-licensees for copyright infringement if their acts fall outside the scope of their initial licence grant (*nemo dat*) or where the licence has terminated and the downstream sub-licensee loses their rights.

<sup>418</sup> It is equally important that the conveyances are not characterised as sub-licences, but are instead comprised of direct licences from each contributor to each recipient.

As for dealing with legal limitations found in copyright law, the ASL adopts a similar approach to the GPL, relying on its characterisation as a ‘licence’ (c.f. a sale or transfer of ownership in the copy) as a means of navigating both exhaustion and the essential step doctrine.

### [3.3.3] The Mozilla Public Licence

Like the ASL, the MPLv1 and MPLv2 raise similar questions over how they ensure restrictions run with the code. Looking first at the MPLv1, we find that the drafters have set out some key definitions: ‘*Initial Developer*’,<sup>419</sup> ‘*Original Code*’,<sup>420</sup> ‘*Contributor*’,<sup>421</sup> and ‘*Modification*’ in the Section 1 of the template.<sup>422</sup> Using these definitions, the drafters then set out a bifurcated granting clause that explicitly acknowledges there are two distinct grants coming from two distinct sources. First, the *Initial Developer* grants to each recipient of the work the relevant rights to use, modify and distribute the *Original Code*.<sup>423</sup> Second, each *Contributor* also grants to each recipient of the work the relevant rights to use, modify and distribute their *Modifications*.<sup>424</sup> The effect of this bifurcated granting clause is to ensure that there is a direct licence between each right-holder and each downstream recipient of the work, but only in respect of their contribution. Accordingly, the approach

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<sup>419</sup> Section 1.6, MPLv1

<sup>420</sup> Section 1.10, MPLv1

<sup>421</sup> Section 1.1, MPLv1

<sup>422</sup> Section 1.9, MPLv1

<sup>423</sup> Section 2.1 MPLv1

<sup>424</sup> Section 2.2 MPLv1

taken by the MPLv1 in terms of structuring downstream relations appears similar in many respects to that of the GPL and ASL.<sup>425</sup>

Rather confusingly, however, each granting clause in the MPLv1 explicitly grants to the licensee the power to sub-licence the original work and modifications.<sup>426</sup> Thus, there remains uncertainty as to whether the downstream relations are structured as direct licences or as sub-licences; a distinction which can have significant legal consequences vis-à-vis enforcement. One explanation for all of this is that the MPL drafters may have felt it was necessary to explicitly grant the right to sub-licence in order for the MPLv1's 'concession clause' to be effective; a clause which allows the MPL-covered code to be re-licensed (i.e. sub-licensed) under a specified 'secondary licence' when it forms part of a larger work.<sup>427</sup> Another explanation is that it may just be poorly thought-out drafting.<sup>428</sup>

Irrespective, this issue is largely academic given that the MPLv1 contains an express 'catch-all' termination condition that ensures that a downstream licence (whether direct or a sub-licence) terminates on breach of any term, thus ensuring that any upstream right-holder can bring an infringement action for the continued use of that work.<sup>429</sup>

Turning to consider the template of the MPLv2, we find that the above approach taken by the MPLv1 has been significantly refined. The MPLv2 removes the bifurcation

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<sup>425</sup> This establishes privity between each contributor and each recipient.

<sup>426</sup> Section 2.1(a) and Section 2.2(a) MPLv1

<sup>427</sup> Section 3.7 MPLv2. See discussion above on 'Re-licensing Provisions' at Section 2.2.4.

<sup>428</sup> For detailed discussion on the potential merits of adopting a sub-licensing model over a direct-licensing model, see the following mailing list thread; *Licence Review: Request for Approval of Universal Permissive License* (Opensource.org, September 2014) <<https://lists.opensource.org/pipermail/license-review/2014-September/thread.html#898>> accessed 28.08.17

<sup>429</sup> Section 8.1 MPLv1

of ‘Initial Developer’ and ‘Contributor’ and replaces them with a broader definition of ‘Contributor’ that encompasses both.<sup>430</sup> Thus, the granting clause simply states that ‘each Contributor’ grants to the licensee the relevant rights.<sup>431</sup> In this respect, it adopts an identical approach to that of the ASL. However, unlike the ASL and MPLv1, the MPLv2 does not grant the licensee the same broad power to sub-licence.<sup>432</sup> Interestingly, notwithstanding the absence of an explicit grant to sub-licence, the MPLv2 retains its concession clause for combining code in larger works.<sup>433</sup>

### [3.3.4] The MIT Licence

Finally, the MIT licence is unlike any of the other licence templates discussed. It does not have an express direct licensing provision like the GPL, nor is it expressly drafted to ensure that each contributor grants to each downstream recipient the relevant rights in their contribution. The MIT licence template does, however, confer on licensees the power to sub-licence.<sup>434</sup> This may indicate that the MIT licence template structures the relations of downstream conveyance as a chain of sub-licences (see *Fig 2* and *Fig 4*). However, it is

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<sup>430</sup> Section 1.1 MPLv2

<sup>431</sup> Section 2.1 MPLv2

<sup>432</sup> Although there remains a reference to sub-licensing in a later provision concerning the distribution of executable forms (i.e. object code), which seems to dovetail with the concession clause. See, Section 3.2(b), MPLv2 (‘You may distribute such Executable Form under the terms of this License, or *sublicense* it under different terms, provided that the license for the Executable Form does not attempt to limit or alter the recipients’ rights in the Source Code Form under this License (emphasis added).’)

<sup>433</sup> Section 3.3 MPLv2

<sup>434</sup> MIT License (‘Permission is hereby granted, free of charge, to any person obtaining a copy of this software and associated documentation files (the "Software"), to deal in the Software without restriction, including without limitation the rights to use, copy, modify, merge, publish, distribute, *sublicense*, and/or sell copies of the Software, and to permit persons to whom the Software is furnished to do so, subject to the following conditions [...] (emphasis added).’)

also possible that downstream recipients are granted rights directly by the author on the basis that the author is identified explicitly in the copyright notice.<sup>435</sup> It is not entirely clear.

Provided that the MIT licence's single restriction be considered a scope limitation or condition, the initial licensor will always be able to enforce their copyright against a downstream party that acts in breach of that restriction in their immediate sub-licence. However, should that single restriction be deemed a mere covenant, then it is possible that only the immediate sub-licensor in the chain of conveyance (and not the initial author) will be able to enforce the restriction.

### **[3.4] Chapter Summary**

While the previous chapter demonstrated that FOSS templates pursue uniform objectives, both ideational and functional, the present chapter has highlighted how there are notable differences in terms of how FOSS templates are drafted to achieve these objectives. These variations in drafting techniques – as minor as they may seem – have the potential to play a significant role in determining whether those objectives are realised in domestic law. As we turn to consider the interpretation and enforcement of FOSS licence templates by German and US courts (Chapter 4), it is important to have an appreciation of these variations. Indeed, it is only with an appreciation of these variations that we can truly assess whether and to what extent the enforcement case law extends to cover all FOSS licence templates. Where a court validates and enforces one FOSS licence template, there remains doubt over whether all FOSS templates have been validated.

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<sup>435</sup> On reading the template along with the copyright notice, it may be presumed that the right-holder is directly granting the relevant permissions under the license, not a sub-licensor who remains unidentified in the relevant notices. However, there remains uncertainty given the express power to sub-licence.

With the culmination of this chapter, the thesis concludes its analysis of the FOSS licence templates as textual documents. Over the past two chapters, the focused analysis of the objectives, mechanisms, and drafting techniques of FOSS licence templates has deconstructed the various layered intentions and how they are interwoven. It has shown how the ‘system within a system’ is established through the template, from the ideational down to the very nuts and bolts of the provisions. Most importantly, it has shown how these nuts and bolts are essential; how failure to validate or enforce the drafting techniques and features can potentially have a domino effect by destabilising the enforcement objectives and the teleological objectives. It is with all this in mind that we now turn to consider FOSS licence templates as they have been received, interpreted and enforced in domestic legal systems.

## **Chapter 4: Embedding FOSS Licence Templates in Domestic Law**

### **[4.0] Introduction**

The thesis has so far focused on FOSS licence templates as the machinery by which the FOSS movement embeds its alternative system within a system. In the previous chapters, it was shown how the templates promote certain objectives, employ various mechanisms in service of these objectives, and adopt different drafting techniques to ensure the templates achieve these objectives. The present chapter turns to consider how these templates have been embedded in a domestic legal context. It considers how scholars and judges in both Germany and the United States have construed the templates in accordance with their respective legal frameworks. What becomes apparent is that the task of construing and enforcing FOSS licence templates has been far from straightforward, with scholars and judges vigorously debating how to correlate certain features with existing legal categories of domestic law. The chapter examines the early FOSS scholarship, analyses the landmark enforcement cases, and considers the subsequent case developments in each jurisdiction. Through this analysis of enforcement, the chapter shows how courts in each jurisdiction have construed the licence templates over time, constrained by the established legal framework but simultaneously driven by a desire to ensure the FOSS licences achieve their teleological objectives.

### **[4.1] Germany**

The story of the construction of FOSS licences in German law is essentially a story about the translation and correlation of foreign legal concepts with national equivalents. From relatively early on, German legal scholars have engaged rigorously with FOSS licence templates and their legal construction in German law, a reflection of the fact that Germany

is home to the largest number of FOSS developers in the world outside of the United States and the largest software market in Europe.<sup>436</sup> The landmark decision of *Welte v Sitecom* in 2004 ultimately provided some judicial clarity with respect to FOSS licence enforcement, becoming the first successful GPL enforcement case in the world and paving the way for subsequent decisions.<sup>437</sup>

#### [4.1.1] FOSS Licences in Early German Scholarship

Prior to the Munich court's landmark decision in the case of *Welte v Sitecom*, German legal scholars, much like their colleagues in the United States and other parts of the world, debated the various ways in which FOSS licence templates might be interpreted and enforced by domestic courts.<sup>438</sup> Given that most FOSS licences had been drafted with US law as their point of reference, there were naturally concerns over the extent to which certain licence features would correlate with categories of German law and doctrine.<sup>439</sup> Certainly, the common law concept of a 'bare licence' (see below) invoked by influential figures such as Eben Moglen and the FSF found no direct parallel within German copyright law.<sup>440</sup> Thus, these early debates were primarily concerned with providing a legal

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<sup>436</sup> See, Troillet and Matos, *Fact Sheet: The German Software Market* (German Trade and Investment, June 2016) <[www.gtai.de/GTAI/Content/EN/Invest/\\_SharedDocs/Downloads/GTAI/Fact-sheets/Business-services-ict/fact-sheet-software-industry-en.pdf?v=6](http://www.gtai.de/GTAI/Content/EN/Invest/_SharedDocs/Downloads/GTAI/Fact-sheets/Business-services-ict/fact-sheet-software-industry-en.pdf?v=6)> accessed 28.08.17.

<sup>437</sup> Munich Regional Court, No. 21 O 6123/04 (19.5.2004) – *Welte v Sitecom*

<sup>438</sup> For an overview of some the legal debates in other jurisdictions, see generally, *Metzger* (n 10)

<sup>439</sup> For discussion on the international character of FOSS licences and the underlying influence of US jurisprudence, see Section 1.4.4.B above.

<sup>440</sup> The notion of FOSS licences as non-contractual 'bare' licences is discussed below in Section 4.2.1.A. There is no direct corollary to the 'bare' licence in German law as the transfer of a non-exclusive use-right ('*einfaches Nutzungsrecht*') must necessarily be effected by contract. However, there are arguably some similarities between the common law notion of a 'bare licence' and the German legal concept of 'simple consent' ('*einwilligung*'). For more on this notion of simple consent, see generally, Tinnfeld, *Die Einwilligung in urheberrechtliche Nutzungen im Internet* (Mohr Siebeck, 2012)

interpretation of FOSS licences that ensured the objectives of FOSS were satisfied in a manner that was compatible with the categories of German copyright contract law.

A review of this early scholarship reveals that there were three main interpretive responses available under German law. First, it was thought that FOSS licences might act as waivers (*Verzicht*) of the authors' exploitation rights in the work (*Verwertungsrechtes*).<sup>441</sup> Second, it was thought that FOSS licences were comprised of the grant of a limited non-exclusive use right (*beschränktes einfaches Nutzungsrecht*), with the restrictions acting as 'scope limitations' on the content of the use right.<sup>442</sup> A third interpretation held that the licences were comprised of the grant of an unrestricted non-exclusive use right (*unbeschränktes einfaches Nutzungsrecht*) with the restrictions acting as a condition subsequent on the grant (i.e. as a condition).<sup>443</sup> Each of these interpretations were subsequently considered by the Munich Court to varying degrees in their decision. We will now give an overview of these different scholarly interpretations to provide some context to the Court's decision.

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<sup>441</sup> It is important to highlight a key distinction in the German Copyright Act between '*verwertungsrecht*' and '*nutzungsrecht*'. Both these terms are often incorrectly translated into 'exploitation right' which can lead to some confusion for foreign lawyers. To clarify, the '*Verwertungsrecht*' (s.15 UrhG) is defined as the inalienable authorial right. It is the primary right that comprises the entirety of the powers accorded to the author. The '*Nutzungsrecht*' (s.31 UrhG), which is more accurately translated as the 'usage right' or 'use right', serves as a secondary right that derives from the author's primary right. This secondary use right is granted by the author to others through a licence contract ('*Lizenzvertrag*').

<sup>442</sup> See Section 4.1.1.B below.

<sup>443</sup> See below Section 4.1.1.C below. On conditions, see generally Section 3.1.2.B above.

#### [4.1.1.A] Waiver

Putting aside the fact that FOSS licences do not employ the typical language of waivers, relying instead on terminology idiosyncratic to licensing,<sup>444</sup> it is understandable that German lawyers might characterise FOSS licences as a waiver (*Verzicht*) of copyright.<sup>445</sup> Indeed, as noted by Metzger and Jaeger, ‘since the aim of the programmer who places his software under [a FOSS licence] is ultimately ‘to release’ his programs protected by copyright in such a way that everyone is permitted to distribute any number of copies and adaptations,’ one might be inclined to consider the author as having surrendered or abandoned their authorial rights in the work.<sup>446</sup> However, such an interpretation relies on a prevalent misconception that FOSS licensors are in effect ‘dedicating their works to the public domain’ by making their works freely available to the general public.<sup>447</sup> Indeed,

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<sup>444</sup> Not only are FOSS licences explicitly labelled as ‘licences’, but they also employ language and features that supports their characterisation as licences, e.g. copyright notices (reserving rights), granting clauses. There is little in the text to support the characterisation of FOSS licences as waivers. Compare, for example, the language of the Creative Commons Public Domain Dedication (CC0) which explicitly contains the language of waivers: ‘To the greatest extent permitted by, but not in contravention of, applicable law, Affirmer hereby overtly, fully, permanently, irrevocably and unconditionally waives, abandons, and surrenders all of Affirmer's Copyright and Related Rights and associated claims and causes of action, whether now known or unknown (including existing as well as future claims and causes of action), in the Work [...]’. Section 2, CC0. See, *Creative Commons Public Domain Dedication 1.0 (Universal)* <<https://creativecommons.org/publicdomain/zero/1.0/legalcode>> accessed 28.08.17. N.b. The waiver contains a ‘licence fall-back’ clause, see Section 3, CC0.

<sup>445</sup> Under German law, a waiver (*verzicht*) is generally understood to be the surrender or relinquishment of a right. Applied in the copyright context, however, this understanding of the waiver proves rather contentious for the reasons set out below.

<sup>446</sup> Jaeger & Metzger, *Open Source Software and German Copyright Law* (2001) 32 IIC 52, 60

<sup>447</sup> This interpretation appears to be fuelled by a misconception in general FOSS literature that the notion of ‘commons’ or ‘semi-commons’ is interchangeable or synonymous with the ‘public domain’. They are instead two distinct but related concepts: ‘The public domain in copyright is generally defined as the realm of elements that are not or no longer protected, whether because they are not liable to protection by copyright (as with ideas, or works that are not original) or because the protection of copyright has expired (works whose author has died more than 70 years ago.’ Benabou & Dusollier, *Draw me a Public Domain* in Torremans (ed.), *Copyright Law: A Handbook of Contemporary Research* (Edgar Elgar, 2007) 164-165. The ‘commons’ is arguably a broader concept in that may encompass the public domain, but may also comprise protected works that are subject to some degree of common use. Admittedly, both concepts are rather polysemous and contested in nature. See, *Berry* (n 96) Ch.3

such an interpretation is grounded on a number of highly questionable assertions regarding both FOSS licences and German copyright law.

First of all, the waiver interpretation seems to assert that the sole purpose of a FOSS licence is to abrogate the exclusive rights that arise automatically on creation of a work.<sup>448</sup> While it may be true that some of the more permissive licences effectively seek to return the work back into the public domain so that others may use, reproduce and distribute without any concern over infringing copyright,<sup>449</sup> the vast majority of FOSS licences explicitly embrace copyright with more prescriptive goals in mind.<sup>450</sup> Thus, the author is reserving to themselves certain rights to control the use of the work.<sup>451</sup> In this respect, the waiver interpretation fails to give any account of FOSS licence restrictions and how it is they might be legally enforced under German law.<sup>452</sup> Indeed, the interpretation seems to assume that the restrictions have no legal effect on a licensee's use of the work.<sup>453</sup>

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<sup>448</sup> It remains the default rule in Germany that copyright arises immediately on fixation of an original work. Indeed, this default position is enshrined in the Berne Convention and TRIPS Agreement both of which state that member countries cannot condition copyright protection on formalities.

<sup>449</sup> Many of the extremely permissive licences are intended to approximate the function of a waiver. For example, see, the *WTFPL* (n 180).

<sup>450</sup> All FOSS licences, save for the extremely permissive licences, contain some form of restrictive term that relies on copyright remaining in the hands of the right-holder to be enforceable.

<sup>451</sup> Indeed, FOSS licences generally have a copyright notice (e.g. 'Copyright © 2017 [insert name]') which suggests that the right-holder reserves rights. Such explicit assertion of rights is not consistent with a waiver or surrender of the rights.

<sup>452</sup> The idea of a 'conditional' or a 'limited waiver' might explain how licence restrictions can be reconciled with the waiver interpretation of FOSS licences. Certainly, there are authors in common law jurisdictions who have argued that FOSS licences can be interpreted as a 'limited abandonment' of copyright, see *Loren* (n 77). However, the notion of a conditional or limited waiver of an author's exploitation right (*verwertungsrechte*) finds little support in German copyright jurisprudence.

<sup>453</sup> It is worth noting that the defendant in *Welte v Sitecom* argued that the GPL was a waiver for this very reason, i.e. it was argued that by waiving copyright, the restrictions would be unenforceable. See Section 4.1.2 below.

Second, the interpretation touches upon a relatively contentious issue within German copyright jurisprudence; namely, the extent to which an author can waive their authorial rights in a work. It is generally accepted that an author may waive a particular claim arising out of infringement, however it is strongly disputed whether an author can waive or surrender their exploitation rights as such.<sup>454</sup> Not only are there are a number of rights for which waivers are explicitly prohibited as a matter of statutory law,<sup>455</sup> there is also the fundamental concern that general waivers undermine the integrity of the author's inalienable right by severing the personal bond between author and work.<sup>456</sup>

Finally, as has already been hinted at above, one would have to severely stretch and torture the language, terminology and concepts found in most FOSS licences to arrive at the conclusion that the drafters intended for rights in the relevant work to be waived. Indeed, the very title 'licence' should serve at least some indication of the intended effect.

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<sup>454</sup> Some scholars have argued that authors may waive individual exploitation rights to the public, e.g. see Seetzen, *Der Verzicht im Immaterialgüterrecht* (Göttingen, 1969) 46-48. There has also been some indication from the BGH that waiver of individual exploitation rights may be possible, however, the BGH explicitly rejected the drawing of parallels between waiver of copyright and the voluntary dereliction of property under Section 959 of the BGB, stating 'there is no "ownerless" copyright', see, Federal Court of Justice, No. I ZR 68/93 (23.02.1995) - *Mauer-Bilder*. Thus, the prevailing view is that authors may waive claims with respect to specific infringements that have taken place, but they may not waive or surrender their authorial right itself. Attempts to waive copyright must therefore be construed, for example, as the grant of a use right or a contract not to sue. See generally, *Dreier/Schulze* (n 308) §29 para. 10; Ahlberg & Götting, *Beck'sher Online-Kommentar: Urheberrechts* (16<sup>th</sup> ed., C.H. Beck, 2017) §29 para. 5.

<sup>455</sup> For example, Section 32(3) ('Right to Equitable Remuneration') and Section 42(2) UrhG ('Right of Revocation'). However, the fact that waivers are expressly forbidden for specific rights seems to suggest that other rights are capable of being waived *exclusio unius*. Indeed, some provisions in the UrhG expressly allow for the waiving of certain rights, e.g. Section 8(4) UrhG recognises that a joint author may 'waive' their share of the exploitation rights in a work and Section 39(1) UrhG provides that the author may agree to alterations to the work, its title of designations of authorship, which is generally understood to be a waiver.

<sup>456</sup> See *Adeney* (n 161) 271

### [4.1.1.B] Grant of a Limited Use Right

The second approach adopted in this early German scholarship was to consider whether FOSS licences correlated with the conventional understanding of a restricted copyright licence as a contract governing the disposition of a limited non-exclusive use right (*beschränktes einfaches Nutzungsrecht*). Under German law, a copyright licence is generally comprised of the grant of a use right (*Nutzungsrecht*).<sup>457</sup> This reified use right is explicitly set out in statutory law and may be exclusive or non-exclusive in nature.<sup>458</sup> According to Section 31(1) of the UrhG, authors may grant use rights that ‘may be limited in respect of place, time or content’.<sup>459</sup> This provision explicitly recognises the author’s ability to contractually tailor the constitutive dimensions of the use right so as to create ‘scope limitations’ on the grant.<sup>460</sup> In other words, it recognises that a licensor may reserve certain forms of exploitation and, in effect, create *in rem* restrictions that if violated give rise to a claim for infringement of copyright.<sup>461</sup> In Germany, licensors routinely draft

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<sup>457</sup> See, Section 31 UrhG. However, not all licences are comprised of the transfer of a use right. Section 29(2) of the UrhG states that in addition to the granting of use rights (*Einräumung von Nutzungsrechten*), an author may establish contractual authorisation (*schuldrechtliche Einwilligungen*) in relation to the use of a work. While the Act provides no further guidance on the term ‘contractual authorisations’, such authorisations clearly do not involve the transfer of use rights and are therefore not governed by the provisions of the UrhG that explicitly govern such rights. Thus, authors who wish to derogate from those rules (e.g. successor protection under Section 33 UrhG) may authorise use contractually as opposed to granting a statutorily protected use right. Such contractual authorisations have no effect against third parties. See, *Ahlberg/Götting* (n 454); §29 para. 10

<sup>458</sup> There has long been debate over the nature of use rights in German copyright scholarship. It is widely accepted that exclusive use rights (*ausschließliche Nutzungsrechts*) are proprietary in nature and have *in rem* effect. However, there is significant debate as to whether the non-exclusive use rights (*einfaches Nutzungsrechts*) are proprietary or purely contractual in nature. See, *generally*, *Pahlow* (n 304); *McGuire* (n 304)

<sup>459</sup> Section 31(1) UrhG.

<sup>460</sup> As will be discussed further below, there are doctrinal limitations on the types of scope limitations that right-holders may create under Section 31 UrhG, see Section 5.1.1.B(i) below.

<sup>461</sup> See, Westkamp, *The Limits of Open-Source: Lawful User Rights, Exhaustion and Co-existence with Copyright Law* (2008) I.P.Q. 14, 36

copyright licences with such temporal, spatial and substantive limitations on the use right so as to ensure the restrictions have third-party effect.<sup>462</sup> Indeed, these kinds of restrictions are relied upon heavily in the commercial licensing context.<sup>463</sup>

Given the ubiquity of this feature in German licensing practice, it was no surprise that scholars might view FOSS licences in a similar manner. Indeed, such an interpretation – under which the licence restrictions would be seen as ‘scope limitations’ – would certainly correlate with the interpretations of many US lawyers who viewed FOSS licence restrictions as limiting the scope of the grant.

However, even in this early scholarship, it was recognised that a number of challenges or hurdles had to be overcome for this interpretation to hold.<sup>464</sup> Most notably, there were concerns that FOSS licence restrictions would fail to constitute valid limitations on the content of the use right.<sup>465</sup> To understand nature of the concern here, it is important to highlight that Section 31(1) of the UrhG does not recognise the absolute, unfettered freedom of a licensor to limit the use right in respect of time, place and content. There are, in fact, substantive limitations within German copyright licensing jurisprudence that ensure that only certain types of scope limitations on the use right are valid and enforceable *in rem*.<sup>466</sup> Thus, for such a limitation on the use right to be valid, it must satisfy what is

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<sup>462</sup> *Ibid*

<sup>463</sup> Such limitations play a key role in allowing right-holders to subdivide markets for the exploitation and distribution of their work with *in rem* effect to generate revenue, see, for example, *OEM-Version* (n 332); Federal Court of Justice, No. I ZR 98/57 (21.11.1958) – *Der Heiligenhof*

<sup>464</sup> See, *Jaeger & Metzger* (n 446) 62-63; See also, Spindler, *Rechtsfragen Der Open Source Software* (Verband der Softwareindustrie Deutschlands, 2003) 29-31 <[www.uni-goettingen.de/de/document/download/035cb3109455169625e840892422916e.pdf/studie\\_final.pdf](http://www.uni-goettingen.de/de/document/download/035cb3109455169625e840892422916e.pdf/studie_final.pdf)> accessed 28.08.17.

<sup>465</sup> *Ibid*

<sup>466</sup> See, *Dreier/Schulze* (n 308) §31 para 27-29

commonly referred to as the ‘distinctive market’ test or the requirement of ‘technical and economic clarity’ as it is sometimes called.<sup>467</sup> This is a judicially-developed and administered test that seeks to ensure that limitations seeking to have *in rem* effect ‘only affect a clearly distinguishable and separable modality of exploitation, that is, a distinct market or distribution channel’.<sup>468</sup> Where a licence restriction fails to satisfy this analysis then it is held to be purely contractual term and enforceable *inter partes*.<sup>469</sup>

Without going into much detail at this stage (given that this feature of German law will be examined in greater detail in the following chapter),<sup>470</sup> it suffices to say that German scholars understood that the restrictions in FOSS licences might struggle to satisfy the test.<sup>471</sup> In their influential analysis, Metzger and Jaeger set out a range of arguments as to why the GPL’s restrictions would fall short in this respect.<sup>472</sup> This ultimately led them to conclude that FOSS licences were not comprised of a limited grant of use rights, but were instead based on a different construction entirely.<sup>473</sup>

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<sup>467</sup> See, *OEM-version* (n 332); *Der Heiligenhof* (n 463); Federal Court of Justice, No. I ZR 14/88 (08.11.1989) – *Bibelreproduktion*; Federal Court of Justice, No. I ZR 3/00 (24.10.2002) – *CPU-Klausel*; Federal Court of Justice, No. I ZR 165/89 (12.12.1991) – *Taschenbuch-Lizenz*. This test will be discussed further below at Section 5.1.1.B(i).

<sup>468</sup> *Westkamp* (n 461) 36 (paraphrasing from the BGH’s judgments in *OEM-version* and *Der Heiligenhof*)

<sup>469</sup> Parties are free to create any restriction in the licence contract that is enforceable *inter partes*, but it is only those restrictions that satisfy the ‘distinctive market’ test that are capable of being enforced against third parties, see *Dreier/Schulze* (n 308) §31 para 29.

<sup>470</sup> See Section 5.1.1.B(i).

<sup>471</sup> Koglin would later try to argue that FOSS licence restrictions did satisfy the distinctive market test under Section 31(1) UrhG, see, Koglin, *Opensourcerecht* (Peter Lang, 2007) 108-130

<sup>472</sup> *Jaeger & Metzger* (n 446) 62-63

<sup>473</sup> *Ibid* 63

### [4.1.1.C] Condition Subsequent

The final approach taken by German scholars was to interpret FOSS licences (or perhaps more precisely the GPL) as being comprised of the grant of an unrestricted use right subject to a ‘condition subsequent’. According to this interpretation, FOSS licences grant to licensees a full use right that is free of any scope limitations within the meaning of Section 31(1) UrhG.<sup>474</sup> The licence agreement simultaneously imposes contractual restrictions on the licensee which are linked to a condition subsequent that purports to terminate the grant of rights.

A condition subsequent is a general concept in German civil law.<sup>475</sup> It is set out under Section 158(2) of the BGB. According to this provision, ‘if a legal transaction is entered into subject to a condition subsequent, the effect of the legal transaction ends when the condition is satisfied [and] the previous legal situation is restored’.<sup>476</sup> Applied to FOSS licences, a condition subsequent is said to take the form of a contractual term stipulating that the occurrence of a certain event or circumstance (e.g. the breach of a licence term) will trigger the termination of the licence and reverse any rights.<sup>477</sup> The effect of such

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<sup>474</sup> i.e. limitations with respect to ‘time, place and content’, Section 31(1) UrhG.

<sup>475</sup> The German Civil Code (BGB) is structured into separate books. The first book deals with general concepts of civil law which are not specific to any form of legal transaction (*Das Rechtsgeschäft*), but can apply generally to any type of civil legal transaction. This generalised approach of the BGB reflects the juridical thinking of Friedrich Karl von Savigny and the pandectist school. The ‘condition subsequent’ is set out in the first book of the BGB and therefore acts as a general concept that may apply to all legal transactions. See *generally*, Brox & Walker, *Allgemeiner Teil des BGB* (31<sup>st</sup> ed., Cologne: Carl Heymanns, 2007). For overview in English, see *Foster & Sule* (n 329) 407 ff.

<sup>476</sup> Section 158 BGB

<sup>477</sup> ‘In this way, the validity of the latest valid agreement between the licensee and the licensor is meant to be subject to the uncertain event of compliance with the obligations under the [FOSS licence]’ *Jaeger & Metzger* (n 446) 63; *Deike, Open Source Software: IPR-Fragen und Einordnung ins deutsche Rechtssystem* (2003) C.R. 9, 16; *Westkamp* (n 461) 30-31

termination is to make any further use by the licensee an infringement of copyright.<sup>478</sup> Thus, the condition subsequent under Art. 158(2) of the BGB correlates with the understanding of a ‘condition’ according to the terminology set out in Chapter Three.<sup>479</sup>

For German scholars seeking to validate FOSS objectives, there were clearly a number of advantages to embracing this interpretive account of FOSS licences. First of all, it allowed them to reconcile, on the one hand, concerns vis-à-vis licence restrictions and the ‘distinctive market’<sup>480</sup> test with, on the other hand, the perceived need to redress licence violations through copyright law.<sup>481</sup> Indeed, by linking the contractual restrictions to a condition subsequent, this had the effect of circumventing the test while rendering those restrictions to some extent *de facto* limitations on the grant.<sup>482</sup> In this respect, the condition subsequent formula was seen to correlate with the aims and objectives of FOSS as far as legal enforcement was concerned.<sup>483</sup>

However, in seeking to correlate FOSS licence templates with German law, this interpretation obscures a number of important considerations. First of all, it seems to apply only in respect of those templates with restrictions that are clearly drafted as conditions. Indeed, the interpretation put forward by German scholars was largely directed at the

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<sup>478</sup> The act that triggers the termination condition may not be an infringement itself, but the loss of rights will render any future performance of restricted acts an infringement. Thus, the copyright liability is considered to arise ‘*ex nunc*’ following the breach, see Section 3.1.2.B above.

<sup>479</sup> *Ibid*

<sup>480</sup> Discussed in detail below at Section 5.1.1.B(i).

<sup>481</sup> *Westkamp* (n 461) 23 (‘The *conditio subsequens* solution, therefore, appears to render [Open source Licences] perfectly enforceable; it effortlessly allows the transposition of a combination of legal principles that, finally, permits an unadorned operation of the GPL.’)

<sup>482</sup> *Ibid* 23

<sup>483</sup> On the objectives of FOSS licences, see Chapter Two.

GPLv2 which has an ‘express termination condition’ under Section 4.<sup>484</sup> Unfortunately, for FOSS licence templates that fail to employ clear conditional language (or an express termination condition), the condition subsequent formulation may not be applicable.<sup>485</sup> This leaves open questions as to how – if at all – the licence restrictions in these licences might be enforceable in copyright absent the presence of a condition subsequent.

Furthermore, even if we take the interpretation as applicable only to the GPL, there are further concerns that arise. For example, it was largely assumed by Metzger and Jaeger that there weren’t ‘any objections to subjecting the grant of quasi *in rem* rights of use to conditions, since disposals are also open to conditions.’<sup>486</sup> This may certainly be the true as a general theoretical observation – i.e. as a valid deduction from principles of civil law – however, in practice, the use of such a feature had little precedent in the context of copyright licensing. In fact, it has since been pointed out that there was only one previously reported copyright case in which a German court recognised a term as a valid condition subsequent on the licence grant.<sup>487</sup> Accordingly, this is not to say that the interpretation is invalid, but merely that it is fairly atypical in German copyright contract law. Nevertheless, as we shall see, the Munich Court in *Welte v Sitecom* ultimately favoured this interpretation in so far as the GPLv2 is concerned.

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<sup>484</sup> See Section 3.1.2.C above.

<sup>485</sup> For example, the Artistic Licence, the MIT licence, the BSD-licences. Indeed, there are many FOSS licences that do not contain an express termination condition that might serve as a condition subsequent to the grant of rights.

<sup>486</sup> *Jaeger & Metzger* (n 446) 62

<sup>487</sup> *Westkamp* (n 461) 22 (noting that there had only been a single reported German case in which a condition subsequent had been upheld in the copyright context, see Higher Regional Court of Munich, No. 6 U 2622/78 (17.05.1979) – *Brother in the Wind*)

#### [4.1.2] Landmark Case – *Welte v Sitecom*

Before examining the Munich Court’s judgment, it is helpful to provide a bit of background to the case.<sup>488</sup> The dispute concerned the code for ‘netfilter/iptables’ which was – and remains – an integral and economically important part of the GNU/Linux operating system.<sup>489</sup> The source code for netfilter/iptables had been made freely available to the public under the terms of the GPLv2. Following forensic analysis of their networking products, it came to light that the local subsidiary of the defendant company, Sitecom GmbH, had made available on their website some binary firmware that contained code from netfilters/iptables. This binary firmware was made available by Sitecom without any reference to the licence text of the GPL or any written offer to provide source code on request contrary to the conditions under Section 2 of the GPLv2.<sup>490</sup> Harald Welte, who at the time was a maintainer of the Netfilter project and held copyright in a substantial amount of the code as a result of his contributions, considered this a clear violation of the GPL’s terms.<sup>491</sup> When initial negotiations failed to secure Sitecom’s compliance with the GPL, Welte brought an infringement claim before the Munich District Court requesting issuance

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<sup>488</sup> *Welte v Sitecom* (n 437). For an English translation of the case with commentary, see Maurer (transl.), *The German GPL Order Translated* (Groklaw, 2004) <[www.groklaw.net/articlebasic.php?story=20040725150736471](http://www.groklaw.net/articlebasic.php?story=20040725150736471)> accessed 28.08.17.

<sup>489</sup> *Ibid*

<sup>490</sup> See Section 2 GPLv2

<sup>491</sup> Welte was the founder of ‘gpl-violations.org’, an organisation that acts as an advocacy group for FOSS compliance and serves as a vehicle for enforcement vis-à-vis licence violations in Germany. See above (n 277)

of a preliminary injunction to prevent further violations.<sup>492</sup> Overall, as far as FOSS litigation is concerned, the facts of the case were relatively straightforward.<sup>493</sup>

The Munich Court took to their task of GPL interpretation in a fairly holistic manner. Not only did the decision acknowledge the range of interpretive accounts set out in scholarship, admittedly to varying degrees, but it also addressed a range of legal issues contingent on these interpretations, e.g. validity of formation, the incorporation of terms, the reasonableness of terms, and even showed deference to legislative policy on FOSS.

The Court immediately dismissed the assertion that the GPL constituted a waiver of Welte's copyright, finding that such an interpretation would be incompatible with the goals and objectives of FOSS, i.e. furthering development and ensuring reciprocal contributions.<sup>494</sup> Turning to consider whether there had been any infringement, the Court pursued two different lines of inquiry. First, it was considered whether the terms of the GPL had been effectively incorporated into the legal relationship between the parties in accordance with BGB's provisions on standard business conditions.<sup>495</sup> Indeed, failure to establish that the terms had been effectively incorporated would render any use of Welte's code an actionable infringement as there would be no valid transfer of a use right.<sup>496</sup> The

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<sup>492</sup> Before seeking an injunction, a copyright claimant must first issue a cease and desist letter to the alleged infringer; Section 97a UrhG. See, *Dreier/Schulze* (n 308) §97a paras. 3-7. This procedure was carried out by Welte but with no success at cessation. See, *Welte v Sitecom* (437)

<sup>493</sup> The dispute raised some ancillary issues concerning the role of the relationship of the local subsidiary and parent company, however, these are not material to the present discussion, see *Welte v Sitecom* (437)

<sup>494</sup> 'The court shares the opinion that the conditions GPL cannot be considered a waiver of copyright and authorship rights. To the contrary, conditions of copyright law serve the users to ensure and realize their goals regarding further development and distribution of software.' *Ibid*

<sup>495</sup> Section 305(2) BGB.

<sup>496</sup> 'Concerning the first alternative [i.e. that the defendant never received rights of use], it is imaginable that no effective agreement has been reached because of invalid general conditions of sale (par. 306 section 2 BGB).' *Welte v Sitecom* (437)

Court answered in the affirmative, satisfied that the GPL's terms and conditions, which had been referenced in a hyperlink on the netfilter/iptables download page, had been validly incorporated in accordance with the formal requirements of German contract law.<sup>497</sup> Accordingly, the Court held that there had been a valid transfer of a use right to Sitecom.<sup>498</sup>

Thus, the Court considered whether there was infringement as a result of (a) Sitecom acting outside of the scope of a limited use right grant or (b) Sitecom making use of the code after the termination of the licence and the reversal of rights. As anticipated in the scholarship, the Court held that restrictions in Section 2 of the GPL were not permissible *in rem* limitations (scope limitation) on the use right because they failed to satisfy the 'distinctive market' test under s.31(1) of the UrhG.<sup>499</sup> The Court found that the GPL's limitations did not reserve a 'technically and economically independent, and thus clearly delineable, form of use'.<sup>500</sup> In reaching this conclusion, the Court relied entirely on German FOSS scholarship as their basis for this finding.<sup>501</sup>

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<sup>497</sup> The Munich Court does not explicitly reason this point, but subsequent decisions have clarified that FOSS licences contracts are validly formed in accordance with Section 151 of the BGB which provides that a contract may 'come into existence through the acceptance of the offer without the offeror needing to be notified of acceptance, if such a declaration is not to be expected according to customary practice, or if the offeror has waived it.' See, Regional Court of Frankfurt, No. 2-6 O 224/04 (22.09.2006) – *Welte v D-link*

<sup>498</sup> En passant, the Munich Court held that the non-exclusive use right was a right *in rem* ('*dingliches recht*') – a relatively controversial claim within German copyright jurisprudence that bore little relevance to the immediate issues in the case. For more on the German debates over the nature of the non-exclusive licence, see (n 458)

<sup>499</sup> *Welte v Sitecom* (n 437)

<sup>500</sup> *OEM-Version* (n 332)

<sup>501</sup> Citing Jaeger & Metzger, *Open Source und deutsches Urheberrecht* (1999) GRUR Int. 99, 839; Omsels, *Open Source und das deutsche Vertrags- und Urheberrecht* in Scherz and Omsels (eds.), *Festschrift für Paul W. Hertin zum 60. Geburtstag* (München, C. H. Beck, 2000); Plaß, *Open Contents im deutschen Urheberrecht* GRUR 2002, 670 ff. It is interesting to note that one of the authors cited was acting counsel for the claimant.

Having rejected the *in rem* limitation argument, the Court turned again to the scholarly literature, this time drawing upon Metzger and Jaeger’s assertion that Section 4 of the GPL acted as a condition subsequent on the grant of rights pursuant to Section 158 of the BGB.<sup>502</sup> The Court did not object to this interpretation in principle. However, the Court acknowledged that upholding such a feature might have the undesirable effect of circumventing the regulatory controls embedded in s.31(1) UrhG.<sup>503</sup> Given these concerns, the Court asked whether – on reading the contract as a whole – the effect of the condition subsequent would be compatible with the underlying principles and objectives embodied in Section 31 UrhG.<sup>504</sup> Here, the Court took a rather purposive approach, stating that the ‘essential consideration’ of Section 31 was to assess whether a limitation would adversely affect the downstream marketability of a work by third parties in a distribution chain (i.e. the ability to reconvey the work).<sup>505</sup> Applying this criterion, the Court found that termination as the result of a licensee’s breach raised no significant concerns for third parties given that downstream parties’ rights remained unaffected by termination due to the operation of the GPL’s direct licensing provision.<sup>506</sup> Accordingly, termination was seen to have only *inter partes* effect and was therefore deemed consistent with the essential considerations of Section 31(1) UrhG.<sup>507</sup> Furthermore, the Munich Court held that ‘in so

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<sup>502</sup> *Jaeger and Metzger* (n 446) 62

<sup>503</sup> *Welte v Sitcom* (n 437)

<sup>504</sup> *Ibid*

<sup>505</sup> *Ibid*

<sup>506</sup> Section 4 of the GPL (‘Termination’) states that ‘parties who have received copies, or rights, from you under this License will not have their licenses terminated so long as such parties remain in full compliance.’ Recall that Section 6 automatically establishes a direct licence between the right-holder and each subsequent acquirer of the work, see Section 3.3.1 above.

<sup>507</sup> *Welte v Sitecom* (n 437); see also, *Westkamp* (n 461) 24 (critically discussing the court’s emphasis on the *inter partes* effect of the ‘conditio subsequens formula’)

far as the distributor at the time of reproducing the copies was no longer permitted to do so [...] the exhaustion doctrine would not apply as any subsequent purchaser would be purchasing from an unauthorised party'.<sup>508</sup> Thus, the Court found that the limits imposed by the exhaustion doctrine did not limit Welte's ability to enforce his copyright against a downstream party who purchased a copy pursuant to a breach of the licence.<sup>509</sup>

Finally, it is important to highlight that as a matter of contract law, the Court had no objections to the validity of Section 4 of the GPL. The decision briefly addressed the question of whether, as part of a standard-form contract (AGB), the provision might be contrary to Section 307 BGB.<sup>510</sup> However, the Court concluded that Section 4 did not 'unreasonably disadvantage' the licensee and therefore met the requirement of good faith.<sup>511</sup> In reaching this finding, the Court were again persuaded by the fact that a breaching licensee could easily reacquire rights by complying with the licence terms.<sup>512</sup> The Court also showed deference to the intent of the legislature and their recognition of the fundamental principles of FOSS licences through the creation of the 'Linux clause' in Section 32(3) of the UrhG, which exempts unremunerated grants of non-exclusive use rights from the mandatory rules on equitable remuneration.<sup>513</sup> In conclusion, it was stated that if one were of the contrary opinion that the provision was 'unreasonable' and therefore

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<sup>508</sup> *Welte v Sitecom* (n 437)

<sup>509</sup> The Munich Court's judgment gives an underwhelming analysis of the exhaustion doctrine. However, the issue was examined further by the Frankfurt Regional Court in the subsequent case of *Welte v D-Link* (n 497)

<sup>510</sup> 'Provisions in standard business terms are ineffective if, contrary to the requirement of good faith, they unreasonably disadvantage the other party to the contract with the user. An unreasonable disadvantage may also arise from the provision not being clear and comprehensible.' Section 307 BGB.

<sup>511</sup> *Welte v Sitecom* (n 437)

<sup>512</sup> *Ibid*

<sup>513</sup> The 'Linux Clauses' are discussed in greater detail in Chapter Seven, see Section 7.2.1.

invalid under Section 307 of the BGB, then this would have the effect of invalidating the contract as a whole pursuant to Section 306(3) of the BGB.<sup>514</sup> As a consequence, any use would be deemed an infringement and the author's claim would still stand.<sup>515</sup>

In conclusion, the Munich Court found that Sitecom had infringed Welte's copyright in the relevant GPL-licensed netfilters/iptables code as a result of the termination of their rights and a preliminary injunction requiring the cessation of infringement was awarded pursuant to Section 97 of the UrhG.

### [4.1.3] Subsequent Case Law

The Munich Court's decision in 2004 paved the way for several further FOSS enforcement cases to follow. Through this subsequent case law the German courts solidified the basic construction of the GPL as a grant of rights subject to a condition subsequent under Art 158 BGB. These subsequent cases have also shed light on more peripheral – yet nevertheless important – issues pertaining to the enforcement of FOSS licences. As part of the extended analysis of FOSS licence enforcement, it will be helpful to briefly consider some of the contributions made by these subsequent cases to see how German courts have further contextualised FOSS licence templates in relation to the German law on, *inter alia*, damages and civil procedure rules.

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<sup>514</sup> Section 306(3) BGB ('The contract is ineffective if upholding it, even taking into account the alteration provided in subsection (2) above, would be an unreasonable hardship for one party.')

<sup>515</sup> Thomas Hoeren criticises this finding by arguing 'it would violate equity and good faith if [a licensor] were allowed to sue others merely on the grounds that [their] license terms were invalid.' See, Hoeren, *The First Ever Ruling on the Validity of the GPL – A Critique of the Case* (2004) <[www.oii.ox.ac.uk/archive/downloads/research/gpl/OIIFB\\_GPL3\\_20040903.pdf](http://www.oii.ox.ac.uk/archive/downloads/research/gpl/OIIFB_GPL3_20040903.pdf)> accessed 28.08.17.

One of the first decisions to follow was again the product of Harald Welte's litigious efforts<sup>516</sup>. This time, however, instead of seeking a cessation of infringement, Welte only sought a claim for costs and an order for the disclosure of information relating to the alleged violation of the GPL.<sup>517</sup> The defendants, a subsidiary of a Taiwanese manufacturer, challenged these claims on various grounds, but ultimately failed.<sup>518</sup> The Frankfurt Court applied the reasoning of the Munich Court almost verbatim, reaffirming the basic construction of the GPL. The Court went on to clarify that the GPL comes into existence as a valid contract by the author affixing the licence to the work and offering it online and the licensee implicitly accepting the offer by downloading a copy – a point not explicitly addressed by the Munich judgment.<sup>519</sup> Furthermore, the Court held that exhaustion of rights did not occur because 'the principle of exhaustion only applies to the individual physical data carrier onto which the software is copied during the downloading process'.<sup>520</sup> The Frankfurt Court ultimately granted the claim for costs and the order for disclosure regarding the number of copies made by the Defendant.<sup>521</sup> While the decision did not add much to the basic construction of FOSS licence templates by the Munich Court, it nevertheless

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<sup>516</sup> *Welte v D-link* (n 497)

<sup>517</sup> The case presented very different facts. Welte was not the author of the code in question but had been conferred standing to sue under a Fiduciary Licence Agreement from the relevant authors; See FSFE, *Fiduciary Licence Agreement Version 1.2*, <<https://fsfe.org/activities/ftf/FLA.en.pdf>> accessed 28.08.17. For commentary on the FLA, see van den Brande, *The Fiduciary Licence Agreement: Appointing Legal Guardians for Free Software Products* (2009) IFOSS L. Rev. 1(1), 9.

<sup>518</sup> The defendants unsuccessfully defended the claim on the grounds of lack of authorship.

<sup>519</sup> The Frankfurt Court clarified that the licensee's acceptance of the offer did not need to be notified to the offeror (*nicht-empfangsbedürftig*) because such the declaration (*willenserklärung*) was not to be expected according to customary practice, and the offeror had implicitly waived it in accordance with Section 151 BGB. This point was not explicitly stated in the Munich Court decision, so the Frankfurt decision provides greater clarity in this regard. For further background on the role of German civil law concepts such as declarations of intent (*willenserklärung*), see *Foster & Sule* (n 329) 424 ff.

<sup>520</sup> *Ibid*

<sup>521</sup> *Ibid*

elucidated certain aspects of the reasoning that were arguably not as clear in the Munich Court's judgment.<sup>522</sup> Indeed, many of the subsequent FOSS cases may be viewed as just a re-affirmation of the Munich Court's decision.<sup>523</sup> There are, however, some rulings that have engaged with issues of FOSS licence enforcement not initially encountered by the Munich Court.

For example, a 2011 decision by the Regional Court of Bochum established that that a claim for damages was available to the licensor of a LGPL-covered<sup>524</sup> work who had their work incorporated into a product and sold in violation of the licence restrictions.<sup>525</sup> Significantly, the Bochum Court held that the damages were to be based on an equitable license fee due for comparable software, notwithstanding the fact that the code was offered for free under the LGPL.<sup>526</sup> This decision represents a significant development in the German timeline on FOSS licence enforcement because it seemingly lays to rest some of the concerns over licensors' inability to obtain monetary damages in response to violations.<sup>527</sup>

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<sup>522</sup> *Ibid*

<sup>523</sup> See, Regional Court of Munich, (12.04.2005) *Welte v Fortinet UK Ltd* (unreported); Regional Court of Berlin, No. 16 O 134/06 (21.02.2006) - *Welte v Versatil*; Regional Court of Munich, No. 7 O 5245/07 (12.07.2007) - *Welte v Skype*; Regional Court of Berlin, No. 16 O 458/10 (08.10.2010) – *Gerlach v DVU* (Creative Commons); Regional Court of Berlin, No. 16 O 255/10 (08.11.2011) – *AVM v Cybits*; Regional Court of Cologne, No. 308 O 10/13 (14.06.2013) – *Welte v Fantec*; Regional Court of Hannover, No. 18 O 159/15 (07.21.2015)

<sup>524</sup> *GNU Lesser General Public Licence Version 3* <[www.gnu.org/licenses/lgpl.html](http://www.gnu.org/licenses/lgpl.html)> accessed 28.08.17.

<sup>525</sup> Regional Court of Bochum, No. 1-8 O 293/09 (20.01.2011) – *Freedhocudf*

<sup>526</sup> 'Entitlement to damages may also be assessed on the basis of the amount the infringer would have had to pay in equitable remuneration if the infringer had requested authorisation to use the right infringed.' Section 97(2) UrhG. The Bochum court did not consider other ways of determining damages (e.g. actual damages) as the claimant had relied exclusively on Section 97(2) UrhG. Furthermore, the Court did not explain how they calculated the damages using the licence analogy.

<sup>527</sup> These are damages arose because of the infringement, not through breach of contractual obligation. The Bochum case is rather unique in that the claimant was the sole holder of the copyright in the work in dispute. Establishing a claim for damages can be problematic in the context of FOSS if the claimant

A subsequent 2014 decision by the Cologne Regional Court further recognised FOSS licensors' ability to claim damages for violation of the GPLv3.<sup>528</sup> In this case, however, the FOSS claimant elected to have the damages calculated, not by way of license analogy as per the Bochum ruling, but instead on the basis of the infringer's profits.<sup>529</sup> In calculating the profits, the Cologne Court took a rather liberal approach, looking beyond direct sales to profits made indirectly by the defendant through selling customer support and other ancillary services.<sup>530</sup> Some commentators – including the Court itself – have characterised this approach as punitive in nature. Certainly, it would deter licensees from violating FOSS licences in future.<sup>531</sup>

Despite these decisions, there remain some doubts over the availability of damages for FOSS licence violations. In 2014, the Higher Regional Court of Cologne held that no damages would be awarded to a claimant in response to a violation of the non-commercial clause in the Creative Commons Non-Commercial Licence (CC-BY-NC) on the basis that the initial licence had been granted to the public free of charge.<sup>532</sup> Accordingly, there is

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is not entitled to individually claim the full amount of damages, i.e. where the claimant is not the sole owner of the code, but is merely one of many joint or multiple authors who have contributed to the work(s). See, Peukert and König, *License Contracts, Free Software and Creative Commons in Germany* in Metzger (n 10)

<sup>528</sup> Regional Court of Cologne, No. 14 O 463/13 (17.07.2014)

<sup>529</sup> Some commentators have argued that the claimant may have sought an account of profits due to the perceived challenges in calculating damages based on an equitable licence analogy notwithstanding the earlier finding of Bochum Court decision. See, Keppeler, *Regional Court of Cologne: On Damages for Relicensing of Open Source Software* (Heuking Kühn Lüer Wojtek, 21 July 2015) <[www.heuking.de/en/news-events/articles/regional-court-of-cologne-on-damages-for-relicensing-of-open-source-software.html](http://www.heuking.de/en/news-events/articles/regional-court-of-cologne-on-damages-for-relicensing-of-open-source-software.html)> accessed 28.08.17.

<sup>530</sup> *Regional Court of Cologne* (n 528)

<sup>531</sup> The Cologne Court stating that '[t]he skimming off of the infringer's profit also serves to punish the harmful behaviour and in this manner to prevent infringement of the intellectual property rights that are particularly in need of protection.' *Ibid.*

<sup>532</sup> Higher Regional Court of Cologne, No. 6 U 60/14 (31.10.2014) – *Deutschlandradio*. See, Keppeler (n 529); see also, Schweinoch, *Auslegung von Creative Commons-Lizenzen* (2015) NJW 797

lingering uncertainty as to whether and to what extent FOSS (and CC) licensors can claim damages for licence violations where the grant of rights is free of charge.<sup>533</sup>

The final FOSS-related decision worth noting was handed down by the Regional Court of Halle in 2015.<sup>534</sup> The decision is significant because it shows the court trying to reconcile a potential conflict between the GPLv3's self-cure termination provision and the UrhG's procedural rules on injunctive relief.<sup>535</sup> The defendant, a higher-education institution, had made available to its students and employees GPL-covered software without providing the corresponding source code or the licence text. The claimant then sent the defendant a cease-and-desist letter.<sup>536</sup> While the defendant refused to sign the declaration to cease-and-desist, they nevertheless removed the disputed software from the institutional site. To prevent further infringements, the claimant then sought an injunction. However, the defendant argued that the criteria for an injunction had not been satisfied as there was no risk of repeat infringement. They had, in their view, cured the violation within the 30-day grace period set out in Section 8 of the GPL. This highlighted a potential conflict between the Section 8 of the GPLv3 and the UrhG's procedural criteria for injunctive relief.<sup>537</sup> Ultimately, the Halle Court held that the 30-day cure provision did not eliminate

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<sup>533</sup> See also, Higher Regional Court of Hamm, No. 4 U 72/16 (13.06.2017) (in which the court denies a GPL claimant damages due to the price of the software being set at 'zero')

<sup>534</sup> Regional Court of Halle, No. 4 O 133/15 (15.07.2015). An English translation of the decision is available at <[www.jbb.de/Docs/LG\\_Halle\\_GPL3.pdf](http://www.jbb.de/Docs/LG_Halle_GPL3.pdf)> accessed 28.08.17.

<sup>535</sup> Section 8 GPLv2. For more on the GPLv3's graduated approach to termination, see Section 3.2.1 above.

<sup>536</sup> In accordance with the procedural requirements set out under Section 97a UrhG.

<sup>537</sup> To obtain an injunction under Section 97 of the UrhG, the claimant must establish (a) copyright infringement and (b) the risk of repeated infringement. Such risk can be assumed where there has been a prior infringement, but this assumption can be negated if the infringer signs a written declaration agreeing to cease and desist backed-up with an added penalty clause (see, Section 97a UrhG). In the case, the defendant argued that there was no risk of repeated infringement because they had taken down the infringing work, even though they did not sign the declaration. The defendant also argued that Section 8 of the GPL precluded the claimant from asserting a claim for infringement

the author's right to seek a preliminary injunction because the defendant had refused to sign the cease-and-desist declaration.<sup>538</sup> Removal of the software from the site was not in itself deemed sufficient to eliminate the risk of repeat infringement. The self-cure clause was only deemed to grant the defendant a 'second chance' going forward, whereas the claimant's right to prevent further infringements persisted from the moment of the initial infringement.<sup>539</sup> Indeed, the Court held that if the provision were to be interpreted otherwise then 'this would in effect be tantamount to an invitation to every user of the licence to violate the terms of the licence in the secure knowledge that he would only need to reckon with having to submit a cease-and-desist declaration with a penalty clause or a cease and desist order issued by a court upon discovery of the second case of infringement'.<sup>540</sup> Thus, the decision illustrates how FOSS licence enforcement is an ongoing process that requires domestic courts to address not only the basic questions of enforcement, but also reconcile the templates with the more detailed procedural rules and doctrine of domestic copyright law.

In conclusion, the subsequent case law reveals several things about the ongoing process by which FOSS licence templates have been constructed and validated in accordance with German law. While the initial Munich Court decision settled the basic principles of interpretation and enforcement, the subsequent case law has played an important role in solidifying these basic principles and extending them to break ground on further questions relating to enforcement. That German courts have awarded monetary

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prior to the conclusion of the 30-day self-cure period. Taken together, these arguments exposed a potential lacuna in the GPLv3's enforcement mechanism.

<sup>538</sup> Citing Wandtke & Bullinger, *Praxiskommentar zum Urheberrecht* (4th ed., C.H. Beck, 2014) §97 para 37

<sup>539</sup> *Regional Court of Halle* (n 534)

<sup>540</sup> *Ibid*

damages to FOSS claimants is interesting to note as it shows a willingness of both the claimants and courts to look beyond exclusionary remedies to consider the compensatory dimensions of FOSS licence enforcement. At first glance, this may seem like a derogation from the objective of securing exclusionary remedies. However, this trend merely highlights the growing commercial significance of FOSS and the corresponding maturation of FOSS enforcement strategies. Indeed, while compensatory damages have been awarded in a handful of German cases, they have always remained ancillary to the claimant's primary objective of securing cessation of infringement.<sup>541</sup> Overall, this section has shown how Germany is one of the few countries – perhaps the only – that boasts such a rich body of FOSS case law that continues to grow.<sup>542</sup>

#### **[4.1.4] Concluding Remarks**

Given the Munich Court decision and the subsequent case law, one may be justified in thinking that the question of FOSS licence enforcement is conclusively settled in Germany, that the reasoning behind the construction of FOSS licences is immutable and that the licence templates are firmly embedded within the German licensing framework. However, a more critical analysis of the case law reveals that the courts' reasoning is perhaps not as robust as one might think. While the following chapter will consider the broader implications of FOSS enforcement case law as it applies to non-FOSS licensing models, we will conclude the present section on German case law by considering the flaws and limitations of the decisions in so far as it applies to FOSS licence templates themselves.

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<sup>541</sup> As per best-practice guidelines, FOSS claimants are discouraged from seeking compensatory remedies insofar as the pecuniary award acts as a substitute for exclusionary remedies.

<sup>542</sup> See, e.g. Regional Court of Hamburg, No. 310 O 89/15 (08.07.2016) – *Hellwig v. VMware*. For more information on this case, see *FAQ about Christoph Hellwig's VMware Lawsuit* (n 192)

The key takeaway from the German case law is that the courts consider FOSS licence templates – or the GPL at least – to be enforceable in copyright, not because the restrictions act as scope limitations on the grant of rights, but because the express termination condition acts as a condition subsequent (Art. 158 BGB) on the continued validity of the grant. As discussed, this basic construction was adopted to ensure the licences gave rise to copyright liability, notwithstanding the fact that the restrictions failed to satisfy the distinctive market test.<sup>543</sup> One might argue that it makes little difference whether copyright liability arises through breach of a scope limitation or through the loss of rights pursuant to an express termination condition. However, the importance of this distinction becomes apparent when we apply the Munich Court’s reasoning to FOSS licence templates other than the GPL.

Consider, for example, a FOSS licence template that does not contain an ‘express termination condition’ like Section 4 of the GPLv2, e.g. the Apache Licence or the Artistic Licence.<sup>544</sup> A right-holder who licensed their work under such a template may – in accordance with the findings of the Munich Court – be unable to establish an infringement claim on breach.<sup>545</sup> Indeed, they may only be able to assert a contractual claim. If so, this would effectively deprive the licensor of the remedies needed to address the specific harms

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<sup>543</sup> See Section 4.1.1.C above.

<sup>544</sup> For analysis of the ASL, see Section 3.2.2 above; see also, *Artistic License 1.0* <<https://opensource.org/licenses/Artistic-1.0>> accessed 28.08.17. Interestingly, had the Jacobsen case been heard before a German court, it is possible that the claimant may have been unable to establish an infringement claim for lack of an express termination condition akin to Section 4 of the GPL.

<sup>545</sup> It is possible that FOSS licence templates without an express termination condition (e.g. Section 4 of the GPL) may nevertheless be characterised as having a condition subsequent on the grant where they use conditional language in the granting clause. With that said, there have been no reported decisions that have upheld FOSS licence templates that do not have an ‘express termination condition’, so it remains to be seen.

of FOSS licence violations.<sup>546</sup> In this respect, the myopic focus on the GPL as the archetypal FOSS licence obscures the fact that the German FOSS case law does not necessarily render all FOSS licence restrictions enforceable in copyright law.

Indeed, the German case law raises further concerns over the enforceability of other FOSS licence templates. For example, where a FOSS licence template has an express termination condition, but does not have a direct licensing provision (e.g. Section 6, GPLv2), then the express termination condition may be deemed invalid and unenforceable.<sup>547</sup> This is because the Munich Court held that the express termination condition was only valid because it did not affect the rights of downstream parties; a finding that was contingent on the existence of the direct licensing provision.<sup>548</sup> Thus, the decision appears to be further limited in terms of its application to FOSS licence templates outside of the GPL suite of licences.<sup>549</sup>

Finally, even for the GPL and licences with similar features, there remains some uncertainty over how the Munich Court's decision can be reconciled with instances where the work is modified by downstream parties. As discussed, the express termination condition is only valid because its effects are limited *inter partes* by the direct licensing provision.<sup>550</sup> However, where a licensee modifies the covered work to create a derivative work, it is questionable whether the effects of termination remain limited to the direct *inter*

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<sup>546</sup> See Section 2.3.1.A above.

<sup>547</sup> Both for circumventing the 'essential consideration' of Section 31 UrhG and for being an 'unreasonable term' within the meaning of Section 307 BGB.

<sup>548</sup> See text at (n 505)

<sup>549</sup> The GPL templates are the only licences that have an express direct licensing provision. The ASL and MPL allow for direct licensing and sub-licensing, which may create some uncertainty as to whether downstream rights are affected by termination of an upstream licence. Neither the ASL nor MPL templates have a provision explicitly stating that downstream rights remain unaffected by termination (c.f. Section 4, sentence 3 GPL)

<sup>550</sup> See text at (n 505)

*partes* relationship. Consider, for example, a scenario in which licensee (B) creates a derivative work based on licensor (A)'s GPL-covered program and conveys it to (C) in breach of the terms. By triggering the condition subsequent, the initial licence between (A) and (B) terminates. Here, the question then arises as to whether (C)'s rights for the modified work remain unaffected by the upstream termination. While the Munich Court held that the GPL's direct licensing provision (Section 6 GPLv2) ensures that downstream parties' rights remained unaffected, this may not necessarily be the case where a derivative work is involved. This is because neither (A) nor (B) is in the position to grant rights to use, modify or redistribute the new derivative work.<sup>551</sup> Given this, termination of the initial licence can potentially affect the marketability of a modified code by downstream parties, as represented through Fig 5:

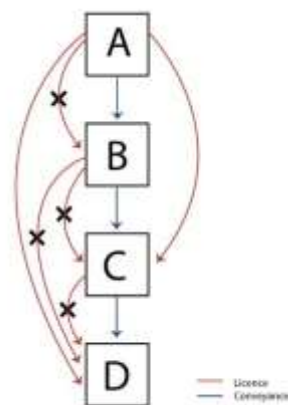


Fig. 5

<sup>551</sup> (A) can authorise (C)'s use of the original program (verbatim copy) by way of the direct licence, but (A) cannot grant rights to (C) in respect of the derivative work resulting from (B)'s modifications as (A) does not have copyright in the modifications. Nor can (B) grant the rights to (C) for the derivative work. While (B) may have copyright in their modifications, (B) does not have the authorisation to distribute and licence that work to others because it is an unauthorised derivative, unless (B) is able to extricate all of (A)'s original material. This affects the rights of any downstream recipient of (B)'s modified program. Of course, downstream parties can continue to use (A)'s original, unmodified version notwithstanding termination, as shown in the Fig 5.

This knock-on effect of upstream termination raises questions over whether the GPL's express termination condition may still be deemed valid in accordance with Section 31 of the UrhG and Section 307 of the BGB. This, in turn, raises concerns over the basic operation of the GPL template under German law. Of course, this scenario was not considered in the Munich Court decision as the decision focused exclusively on the machinery of the GPL as it applied to the conveyance of a verbatim binary copy of the work.<sup>552</sup>

What all of this demonstrates is that the question of FOSS licence enforceability under German law is perhaps not as 'settled' as some might think.<sup>553</sup> Indeed, when we look more closely at the case law and the courts' reasoning as it applies to a broader range of licence templates and scenarios, we find that it is limited and leaves many questions open. With that said, the growing body of case law nevertheless seems to suggest that as a practical matter, German courts find the enforcement of the GPL and similar licence templates to be relatively uncontroversial.

## [4.2] United States

We now turn to consider FOSS licence enforcement in the United States. One might be forgiven for assuming that the construction and enforcement of FOSS licence templates under US law would be relatively straightforward given that most templates were drafted

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<sup>552</sup> Westkamp identifies similar limitations in the judgment: '[T]he obvious line of reasoning as regards the interface between Art 158(1) of the Civil Code and Art. 31 is only partially of assistance. It appears that the analysis only applies in undemanding cases. It centres on two broad notions, the ability to always 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 licences 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.' *Westkamp* (n 461) 26

<sup>553</sup> *Metzger* (n 10) 8

by US lawyers with reference to US terminology and concepts.<sup>554</sup> However, this assumption would be misplaced. Instead, the construction of FOSS licence templates by US scholars and judges has been far from straightforward. As will be shown, the early US scholarship reveals an intense debate over the basic conceptualisation of FOSS licence templates. Similarly, the FOSS case law – while ostensibly confirming the enforceability of FOSS licences under US law – has been overshadowed by the fact that subsequent legal developments have threatened the availability of injunctive relief to successful claimants, casting doubt over whether FOSS licence objectives can be realised under US law.

#### [4.2.1] FOSS Licences in Early US Scholarship

For almost two decades following the publication of the first FOSS licence template, there remained uncertainty as to whether the licences were enforceable under US law. Indeed, FOSS licences – notwithstanding their wide-spread use – had up until that point failed to receive any judicial treatment by US courts. However, there had been plenty of informal and out-of-court enforcement.<sup>555</sup> This left the question of legal enforcement open to debate within scholarship. Whereas the early German scholarship was primarily concerned with correlating the US-centric licences with categories of German copyright contract law, the debates over the construction and enforcement of FOSS licences under US law revealed fundamental uncertainty regarding the jurisprudential nature of the licences. Indeed, there were those who questioned whether FOSS licences were enforceable at all under US law.<sup>556</sup>

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<sup>554</sup> N.b. While most FOSS licence templates were drafted with US law as the point of reference, many were nevertheless subject to a process of ‘denationalisation’ or ‘internationalisation’, see Section 1.4.4.B above.

<sup>555</sup> See, *Moglen* (n 218) (‘That’s why I’ve been able to enforce [the GPL] dozens of times over nearly ten years, without ever going to court.’)

<sup>556</sup> It was even argued at one point that the GPL was unconstitutional. However, the claim was eventually dropped, see Jones, *SCO Drops Its Claim That the GPL Is Unconstitutional* (Groklaw, 29 April 2004)

For others, the doubts over legal validity were perceived as an attempt by vested interests to generate fear, uncertainty and doubt (FUD) around the licensing model to discourage further use and adoption.<sup>557</sup>

In the scholarship, two main interpretive schools shaped the discourse regarding the nature of FOSS licences. On the one hand, there were those scholars and lawyers who considered FOSS licences to be much like any other standard software licence; i.e. a licence contract between two parties.<sup>558</sup> On the other hand, there were those who considered the licences to be a ‘bare licence’ – i.e. a licence without any accompanying contractual agreement.<sup>559</sup> This notion of a ‘bare’ licence is relatively unfamiliar in the software licensing context. It is a concept that derives primarily from real property law;<sup>560</sup> one that acts as a basic form of permission that proceeds unilaterally from the will of the property owner.<sup>561</sup> As such, a ‘bare’ licence is understood to be non-contractual in nature; comprised purely of a proprietary interest.<sup>562</sup> This means that all restrictions found in a bare licence

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<[www.groklaw.net/article.php?story=20040428235932742](http://www.groklaw.net/article.php?story=20040428235932742)> accessed 28.08.17. For an overview of arguments levelled against GPL validity and enforceability, see Wacha, *Taking the Case: Is the GPL in Enforceable?* (2004) 21 Santa Clara High Tech. L.J. 451.

<sup>557</sup> On the topic of ‘FUD’, see above (n 11)

<sup>558</sup> A ‘licence contract’ being comprised of both a ‘licence’ and a contractual agreement. See, *Gomulkiewicz* (n 196) 345; Rosen, *Bad Facts Make Good Law: The Jacobsen Case and Open Source* (2009) IFOSS. L. Rev. Vol.1 No.1, 27; *Wacha* (n 556); *Newman* (n 120)

<sup>559</sup> See, e.g. *Jones* (n 218)

<sup>560</sup> *Ibid* (citing Moglen: ‘The word “license” has, and has had for hundreds of years, a specific technical meaning in the law of property. A license is a unilateral permission to use someone else’s property. The traditional example given in the first-year law school Property course is an invitation to come to dinner at my house. If, when you cross my threshold, I sue you for trespass, you plead my “license,” that is, my unilateral permission to enter on and use my property.’). See also, *Newman* (n 120); Clark, *Licences in Real Property Law* (1921) 21 Colum. L. Rev. 757; see, *Thomas v. Sorrell*, (1673) Vaugh 330, 331

<sup>561</sup> *Newman* (n 120) 1119; *Restatement of Property* (1944) § 515 (‘No formalities are essential to the creation of a license.’)

<sup>562</sup> There remains debate over the nature of the legal interest conferred by a ‘licence’ under common law, see, *Newman* (n 120) 1110 ff.

must necessarily form scope limitations or conditions on the grant. Indeed, absent a contractual agreement there can be no ‘covenants’ acting as restrictions on a licensee’s behaviour.<sup>563</sup>

It must be noted that both these interpretations are, at least in theory, capable of delivering the desired outcomes considered integral to effective FOSS licence enforcement. Both interpretative accounts recognise that key FOSS restrictions can function as licence scope limitations or conditions, the breach of which give rise to a claim for copyright infringement, and neither interpretation rules out the possibility of the terms being enforceable against third parties. This raises the question as to why such a divergence of opinion with regard to licence interpretation was prevalent in this early scholarship.

#### **[4.2.1.A] The Bare-Licence-versus-Contract Debate**

The interpretive debate over the nature of FOSS licence templates persisted as a sort of ‘Heisenberg uncertainty principle’ in early US scholarship.<sup>564</sup> While it is true that neither interpretation proved dispositive to ensuring FOSS enforcement objectives were met, there were clearly several material differences between the two interpretations that explained why scholars might favour one over the other.<sup>565</sup> Certainly, a review of the early literature

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<sup>563</sup> Covenants being promissory obligations, see Section 3.1.2.D above.

<sup>564</sup> *Rosen* (n 5) 53

<sup>565</sup> Raymond Nimmer argues that FOSS templates are neither contracts nor bare licences, but are simply textual documents that take on a certain legal character when they are deployed in context. See, Nimmer, *Is the GPL a License or Contract? The Wrong Question* (6 September 2006) <[www.ipinfoblog.com/archives/licensing-law-issues-is-the-gpl-license-a-contract-the-wrong-question.html](http://www.ipinfoblog.com/archives/licensing-law-issues-is-the-gpl-license-a-contract-the-wrong-question.html)> accessed 28.08.17.

reveals an underlying concern that the characterisation of FOSS licence templates as contractual licences might create obstacles to effective enforcement.

Firstly, there appeared to be a concern that injunctive relief would be unavailable if key FOSS licence restrictions were found to constitute mere contractual covenants.<sup>566</sup> Given that such a finding could only arise where the licence was deemed to be a contract, it made sense to reject the contractual characterisation of FOSS licences altogether. This ensured that FOSS licence enforcement remained squarely within the confines of copyright law with recourse to the remedies provided, thus preventing courts from undertaking an interpretive analysis to ascertain whether the claim should sound in contract or copyright.<sup>567</sup>

In addition to this, there was a great deal of debate in the early scholarship over whether FOSS licences satisfy contractual formalities.<sup>568</sup> These questions over formalities were by no means limited to the FOSS licensing context. In the 1980s and 1990s, many contract scholars began to turn their attention to the issues raised by mass-market software licences (e.g. EULAs), in particular, issues concerning their compatibility with the formal requirements of contract law.<sup>569</sup> In the FOSS licensing context, however, two primary concerns were identified: (i) the lack of explicitly verbalised assent to the terms on behalf

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<sup>566</sup> *Gomulkiewicz* (n 196) 345

<sup>567</sup> i.e. the kind of interpretive analysis undertaken in *Jacobsen v Katzer*, see Section 4.2.2 below.

<sup>568</sup> See generally, *Gonzalez de Alaiza Cardona* (n 218); *Wacha* (n 556) 455-456; *Kumar* (n 218) 14-24; *McGowan* (n 270) 289-302; *Nadan, Open Source Licensing: Virus or Virtue?* (2002) 10 *Tex. Intell. Prop. L.J.* 349, 364; *Guadamuz* (n 284); *Heitonen, A License or a Contract: Analysing the Nature of Creative Commons Licenses* (2007) *NIR* vol. 76(6), 516

<sup>569</sup> *Stern, Shrink-wrap Licenses of Mass Marketed Software: Enforceable Contracts of Whistling in the Dark?* (1985) 11 *Rutgers Comp. & Tech. L.J.* 51; *Ryan, Note: Offers Users Can't Refuse: Shrink-Wrap License Agreements as Enforceable Adhesion Contracts* (1989) 10 *Cardozo L. Rev.* 2105; *Einhorn, Box-Top Licenses and the Battle-of-the-Forms* (1992) 5 *Software L. J.* 401; *Gomulkiewicz & Williamson, A Brief Defense of Mass Market Software License Agreements* (1996) 22 *Rutgers Comp & Tech. L.J.* 335, 336 (citing an extensive list of articles dealing with mass-market EULAs); *Hillman & Rachlinski, Standard-Form Contracting in the Electronic Age* (2002) 77 *N.Y.U. L. Rev.* 429

of FOSS licensees, owing in large part to the technical nature of the environment in which the licences are deployed, and (ii) the absence of any consideration given in exchange for the grant of rights to use, modify and distribute – due to the fact that in most cases FOSS licences are granted free of charge.<sup>570</sup> These issues highlight certain challenges inherent in the contractual model of FOSS licensing, challenges that do not arise if one simply considers the licences to be ‘bare’ or purely copyright-based.<sup>571</sup> As noted above, bare licences are unilateral in nature and as such must satisfy only the basic formal requirements in order to be operative.<sup>572</sup> In light of this, we can view the bare licence interpretation as one that seeks to ensure effective licence enforcement without the fear of being undermined or – at the very least – complicated by questions over contractual formalities.<sup>573</sup> With that said, Anglo-American contract law has seen notable developments in the past twenty years that might arguably alleviate the concerns presented by formalities. Indeed, the rise of neoliberal contract theory – as embodied in developments like the proposal for an Article 2B of the UCC,<sup>574</sup> the drafting of UCITA,<sup>575</sup> and the decision in *ProCD v Zeidenberg*<sup>576</sup> –

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<sup>570</sup> On the question of consideration, see generally, Hardy, *Recognising Consideration in Open Source Software Licences* (June 2009) <<http://willhardy.com.au/legal-essays/oss-consideration/view/>> accessed 28.08.17; Giles, *Consideration and the Open Source Agreement* (2002) 49 NSW Soc. Comp. L. 15, <[www.nswscl.org.au/journal/49/Giles.html](http://www.nswscl.org.au/journal/49/Giles.html)> accessed 28.08.17; Zhu (n 49) 157-159

<sup>571</sup> These issues concerning contractual licences have been exhaustively covered over the years in FOSS scholarship so there is no need to examine them at present.

<sup>572</sup> See *Newman* (n 120) 1119

<sup>573</sup> Failure to establish a valid licence contract may not be as problematic for the right-holder as it is for the licensee. Right-holders can always rely on their copyright as a default exclusionary measure.

<sup>574</sup> For further information on the American Law Institute’s Article 2B reform proposal, see generally, O’Rourke, *An Essay on the Challenges of Drafting a Uniform Law of Software Contracting* (2006) 10 Lewis & Clark L. Rev. 925

<sup>575</sup> The *Uniform Computer Information Transaction Act* (UCITA). For further information on UCITA, see *ibid.*

<sup>576</sup> *ProCD v Zeidenberg* (n 58)

has been seen to relax the strict formal requirements of classical contract doctrine, albeit not without controversy.<sup>577</sup> Certainly, the need to demonstrate explicitly verbalised assent has been relaxed in certain respects as courts have found ways to enforce shrink-wrap, click-wrap and browse-wrap agreements notwithstanding certain evidential issues.<sup>578</sup> Notwithstanding – or, perhaps more accurately, in spite of – such developments, many FOSS proponents have appeared to remain firmly opposed to the contractual interpretation of the licences. Such a stance is grounded on a belief that FOSS licences should maintain ‘critical distance’ from neoliberal contract theory and its growing acceptance in practice.<sup>579</sup> Indeed, these developments in the jurisprudence are generally seen to be an extension of proprietary software logic and, as such, are rejected in the FOSS context so as to avoid their legitimisation.<sup>580</sup>

Finally, it has been argued that the bare licence interpretation may be more pragmatic given the international character of FOSS licensing. This argument is based on two key assumptions: first, that contract law regimes around the world are highly variable and lack uniformity *inter se*; and second, that copyright law regimes are relatively harmonised in comparison. As explained by Eben Moglen:

There are [many] contract law schemes in the world and the more you depend upon them, the more variability you will have. Berne is good, the harmonisation of

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<sup>577</sup> On the shift from classical contract doctrine towards neo-liberal contract theory, see *Zhu* (n 49) Ch. 4

<sup>578</sup> *Kim* (n 56) 35-43 (discussing the ‘rise of the wrap contracts’ and early case law)

<sup>579</sup> See, *Zhu* (n 49) 161

<sup>580</sup> See, Stallman, *Why We Must Fight UCITA* (FSF, 31 January 2001) <[www.gnu.org/philosophy/ucita.en.html](http://www.gnu.org/philosophy/ucita.en.html)> accessed 28.08.17.

copyright is good, for us. Our rules will use a toolset that is as close to a global standard as we can get.<sup>581</sup>

In this respect, by distancing FOSS licensing theory from contract law, Moglen sought to avoid the concern that divergent contract law rules might potentially undermine the effectiveness of the global licensing model.<sup>582</sup> As noted, his argument is based on certain assumptions regarding the degree of consistency (or lack thereof) in both contract and copyright regimes around the world. These are assumptions that others have challenged as being overly reductive.<sup>583</sup>

Overall, the early scholarship reveals practical considerations behind the bare licence interpretation. Furthermore, the fact that many prominent figures within the FOSS movement – e.g. Richard Stallman and Eben Moglen, the principal architects and drafters of the GPL – were proponents of the bare licence interpretation certainly helped it gain legitimacy within the wider FOSS community. Indeed, so frequent were Moglen’s assertions that ‘the GPL is a licence, not a contract’ that it became a sort of a mantra within Free Software circles.<sup>584</sup>

Despite this, many scholars and lawyers remained unconvinced about the bare licence interpretation. Indeed, a large proportion of the early FOSS scholarship simply assumed that all software licences were contractual in nature – an assumption fairly engrained in conventional intellectual property licensing jurisprudence.<sup>585</sup> Accordingly,

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<sup>581</sup> *Transcript of Opening session of first international GPLv3 conference* (n 281)

<sup>582</sup> See, *Meeker* (n 115)

<sup>583</sup> *Rosen* (n 5) 58; see also, *Zhu* (n 49) 162

<sup>584</sup> See, *Jones* (n 218)

<sup>585</sup> See discussion below on ‘contract theory of licence’, *Newman* (n 120)

much of this early scholarship explored the doctrinal issues inherent in the contractual model (e.g. assent and consideration) in an effort understand the extent of the problems faced. While some acknowledged the presence of certain formal defects,<sup>586</sup> others asserted that the problems were no greater than those facing mass-market software licence models in general.<sup>587</sup> Generally speaking, the bare licence interpretation was met with a measured degree of scepticism by these scholars.<sup>588</sup> There were several reasons for this scepticism. First of all, concerns were expressed with regard to the fact that bare licences, as unilateral instruments, could be revoked at will.<sup>589</sup> It was felt that the lack of legal protection offered to FOSS licensees did not correspond to the degree of reliance – commercial or otherwise – that licensees placed on the licences remaining in effect.<sup>590</sup> Certainly, for those licensees creating and distributing derivative works in a commercial context, the unilateral revocation of upstream permissions could pose a serious risk to their investment of time and creativity; one that could deter commercial actors from engaging with FOSS from the outset. Likewise, the uncertainty could discourage individual contributors from engaging with the FOSS community, as unilateral revocation introduces a degree of uncertainty vis-a-vis the longevity and direction of individual projects.<sup>591</sup> While some scholars sought to alleviate these uncertainties over revocability through appeals to equitable doctrines such as promissory estoppel<sup>592</sup> and through highlighting the presence of written assurances in

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<sup>586</sup> See generally, *Kumar* (n 218); *Cardona* (n 218)

<sup>587</sup> *Gomulkiewicz* (n 196) 345-346; *Wacha* (n 556) 481-483

<sup>588</sup> *Ibid*

<sup>589</sup> For detailed discussion on the revocability of bare licences under common law, see, *Newman* (n 120) 1119 ff. In the FOSS context, see, *Zhu* (n 49) 163; *Kumar* (n 218) 12-14; *Rosen* (n 5) 62.

<sup>590</sup> See, *Zhu* (n 49)164; *McGowan* (n 270) 302 fn.283

<sup>591</sup> *Ibid*

<sup>592</sup> See, *Kumar* (n 218) 24-27; *Zhu* (n 49) 164-165; *Rosen* (n 5) 64-66

the licence terms (the legal effects of which are rather unclear),<sup>593</sup> others simply felt that the solution was rooted in a contractual interpretation of FOSS licences and the protections it afforded.<sup>594</sup>

Another reason as to why the bare licence interpretation was viewed with a degree of scepticism was due to the fact that, as already mentioned, it was a relatively unfamiliar concept in the copyright licensing context. Indeed, for many Anglo-American copyright scholars, a licence is seen to be synonymous with a contract.<sup>595</sup> According to Christopher Newman, this ‘contract theory of licence’ is fairly ubiquitous within US scholarship and case law.<sup>596</sup> The theory posits that a licence is simply a ‘contract not to sue’.<sup>597</sup> As such, the licence is seen to confer no proprietary interest on the licensee, but merely constitutes a promise from the licensor to the licensee that he will not enforce his claims in respect of the specified uses set out in the grant.<sup>598</sup> Newman argues that while this view is prevalent,

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<sup>593</sup> E.g. some point to the fact that GPL grant is explicitly stated to be ‘irrevocable’ as evidence that it cannot be revoked at will. However, such assurances of irrevocability could merely be a gratuitous representation which has no legal significance; a simple gesture to reassure licensees that, provided the terms are abided by, they have nothing to fear. Eben Moglen has put himself on record stating that the ‘GPL is software that cannot be revoked’; however, no legal argument has been put forward to substantiate his claim. As noted by Sapna Kumar, ‘merely stating that the licence is irrevocable does not make it so.’ *Kumar* (n 218) 14. However, Newman argues that there is such a thing as an irrevocable licence that is purely proprietary in nature, i.e. ‘irrevocable copyright privileges created by deed’. He argues that these could be used to account for the irrevocability of FOSS licences as bare copyright licences; *Newman* (n 120) 1147-1148

<sup>594</sup> Here, the contractual interpretation is advanced primarily for strategic reasons, e.g. to ensure that FOSS licensees are protected against unilateral revocation and so licensees have greater certainty in using and building on FOSS as a result.

<sup>595</sup> *Nimmer* (n 199) 1 (‘A license is a contract.’)

<sup>596</sup> Newman cites numerous judges and scholars who have expressed the view that a licence is simply a contractual promise not to sue, e.g., *Harris v. Emus Records Corp.*, 734 F.2d 1329, 1334 (9th Cir. 1984) (‘[A] license has been characterized as an agreement not to sue the licensee for infringement.’). See *Newman* (n 120) 1103 fn.1-3

<sup>597</sup> *Ibid*

<sup>598</sup> Newman attributes the source of this misunderstanding to the oft-cited passage from Vaughan C.J. in the case of *Thomas v Sorrell* (n 560) (‘A dispensation or license properly passeth no interest, nor alters

it is nevertheless grounded in a common misunderstanding of licences, one that conflates the ‘licence’ with the broader contractual relationship in which a licence is typically situated.<sup>599</sup> Instead, Newman asserts that a copyright licence is a purely proprietary creature, mirroring the concept as it is set out in traditional common law property doctrine.<sup>600</sup> Thus, while a licence may be coupled with a contract so as to form a ‘licence contract’ – as is typically the case in the copyright context – the licence is not a contractual promise in itself.<sup>601</sup> The licence is seen to be comprised of a ‘lesser’ proprietary interest which is granted to the licensee.<sup>602</sup> As such, a licence may indeed be ‘bare’ in the sense that this lesser proprietary interest granted without any accompanying contractual obligations existing between the parties.<sup>603</sup> It is important to highlight this distinction between the two theories of licence because it helps reframe the interpretive debate over FOSS licence templates as a disagreement over the basic concept of a ‘licence’. In this light, we may understand the differing responses to the questions raised in FOSS scholarship to be the product of the distinct starting points of analysis. Certainly, the prominence of the contract theory of licence may explain some of the initial scepticism towards the bare licence interpretation of FOSS.

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or transfers property in any thing, but only makes an action lawful, which without it had been unlawful.’); See *Newman* (n 120) 1116

<sup>599</sup> *Ibid*

<sup>600</sup> *Ibid*

<sup>601</sup> *Ibid*

<sup>602</sup> Newman makes use of Hohfeld’s theory of jural relations as an analytical device to define the nature of this ‘lesser proprietary interest’. He concludes that the interest conferred by a licence is a ‘bare use privilege’ which is the most basic form of property interest under common law. *Ibid* 1113 ff.

<sup>603</sup> *Ibid*

To conclude on the brief overview of the early FOSS scholarship in the United States, it must be re-emphasised that neither interpretation conclusively rules out the attainment of the FOSS licensing objectives. What is clear, however, is that each interpretation is perceived to have certain advantages over the other in terms of effectiveness. Compared with the early German scholarships, the early US scholarship does not appear to face the same challenges in terms of reconciling FOSS licence templates with substantive legal limitations in the domestic legal framework, e.g. the ‘distinctive market’ test.<sup>604</sup> This seems to support the assertion that US licensing law is more laissez-faire in its approach and receptive of a privately-ordered system within a system.<sup>605</sup> However, with that said, the nascent debates in the US are revealing of a more fundamental conceptual uncertainty around the nature of FOSS licence templates and indeed licences more generally under US law.<sup>606</sup> In this respect, the construction of FOSS licence templates under US law by scholars has prompted a re-examination of some of the basic tenets of the system in which they are being constructed.

#### **[4.2.2] Landmark Case - *Jacobsen v Katzer***

The case of *Jacobsen v Katzer* is widely seen as the crowning moment for FOSS licence enforcement in the United States and indeed the broader commonwealth world.<sup>607</sup> It is

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<sup>604</sup> This may explain why FOSS termination clauses (i.e. termination conditions) did not receive as much analysis in the early US scholarship compared to their central role in the German scholarship.

<sup>605</sup> The laissez-faire character of US copyright licensing law is discussed further below in Section 5.2.1.

<sup>606</sup> Which is not to say that there are not similar debates over the nature of licences in German law, see generally, *Pahlow* (n 304) (discussing legal character of non-exclusive use rights)

<sup>607</sup> In the absence of domestic case law, commonwealth jurisdictions consider the decision in *Jacobsen v Katzer* persuasive authority; see generally, Henley, *Jacobsen v Katzer and Kamind Associates – An English Legal Perspective* (2009) IFOSS L. Rev. Vol. 1(1), 41; Synodinou, *The Cypriot Law of Contract Applied to Free Software and Creative Commons: A Work in Progress* in Metzger (n 10) 129-139; Bereskin & Barr LLP, *Copyright infringement of open source software in Canada* (Lexology, 2008)

routinely cited as authority for the proposition that the breach of a FOSS licence restriction is enforceable in copyright law. While it is certainly the most influential US case, it was by no means the first to deal with issues of FOSS. Prior to the decision in *Jacobsen*, there were a handful of cases which involved FOSS licences.<sup>608</sup> However, in each of these cases the question of licence enforcement either played an ancillary role to the main legal issues or was never reached fruition due to the parties reaching an out-of-court settlement before judgment.<sup>609</sup> Thus, for those waiting for clear enforcement of the licences with the backing of a court order, the wait persisted, as did the scholarly debate over enforcement. It is for this reason that a dispute between two model train enthusiasts – hardly the setting for high-stakes litigation – came to generate so much interest within the FOSS community.

Robert Jacobsen was the founder of a FOSS project dedicated to building software tools for model railroad enthusiasts. From the late 1990s, Jacobsen and other contributors collaboratively worked on the ‘JMRI’ project (Java Model Railroad Interface), the source code for which was made publicly available online subject to the terms of the Artistic Licence.<sup>610</sup> In 2004, Matthew Katzer and his company Kamind Associates obtained a software patent covering certain parts of JMRI code in its claims. Katzer subsequently demanded royalties from the project in respect of each copy downloaded; however, his demands were rejected due to the alleged invalidity of the patent. Katzer then accused

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<[www.lexology.com/library/detail.aspx?g=9b3e28b0-9412-4f9f-a332-353bead1b840](http://www.lexology.com/library/detail.aspx?g=9b3e28b0-9412-4f9f-a332-353bead1b840)> accessed 28.08.17.

<sup>608</sup> *Planetary Motion, Inc. v Techsplosion, Inc.* 261 F. 3d. 1188, 1198 (11<sup>th</sup> Cir. 2001); *Progress Software Corp. v MySQL.*, 195 F. Supp. 2d 328 (D. Mass. 2002); *Wallace v Free Software Foundation, Inc.*, 2005 US Dist. LEXIS 31728, 7-8 (S.D.IN. 2005). See also, the SCO litigation; Jones, *SCO Litigation – from Soup to Nuts* (GrokLaw, 2011) <[www.groklaw.net/staticpages/index.php?page=20080803065719599](http://www.groklaw.net/staticpages/index.php?page=20080803065719599)> accessed 28.08.17.

<sup>609</sup> *Ibid*

<sup>610</sup> *Artistic License 1.0* (n 544)

Jacobsen of patent infringement, prompting Jacobsen to seek a declaration of non-infringement.<sup>611</sup> In addition to the declaration of non-infringement, Jacobsen brought, *inter alia*, a copyright claim asserting that Katzer had used JMRI's decoder definition files in his commercial product without the necessary permissions.<sup>612</sup> As part of the copyright action, Jacobsen sought a preliminary injunction to prevent Katzer's further use of the decoder definition files.<sup>613</sup>

The following analysis seeks to understand the CAFC's decision as part of a broader timeline of developments. It is only with an understanding of the full litigation history – including both the District Court decision at first instance and its decision on remand – that we can begin to appreciate the case in terms of the legal precedent it established for FOSS licence enforcement in the US.<sup>614</sup> This extended analysis of legal enforcement is central to understanding how FOSS licence templates are subject to the ongoing developments in the domestic legal frameworks in which they are situated.

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<sup>611</sup> *Complaint for Declaratory Judgment*, Case 3:06-cv-01905-JSW Doc. 1-1 Filed (03/13/2006) <<http://jmri.sourceforge.net/k/docket/1.pdf>> accessed 28.08.17.

<sup>612</sup> *Amended Complaint for Declaratory Judgment*, Case 3:06-cv-01905-JSW, Doc. 96 (11.09.2006) <<http://jmri.sourceforge.net/k/docket/96.pdf>> accessed 28.08.17; see also, *Reply Memorandum in Support of Motion for Preliminary Injunction*, Case 3:06-cv-01905-JSW, Doc. 129 (17.11.2006) <<http://jmri.sourceforge.net/k/docket/129.pdf>> accessed 28.08.17.

<sup>613</sup> For Jacobsen's submissions on the motion for the grant of a preliminary injunction, see *Plaintiff Robert Jacobsen's Motion and Memorandum in Support of Preliminary Injunction*, Case 3:06-cv-01905-JSW, Doc. 114 (25.10.2006) <<http://jmri.sourceforge.net/k/docket/114.pdf>> accessed 28.08.17.

<sup>614</sup> A full repository of court documents relating to the litigation can be found on the JMRI website. See <<http://jmri.sourceforge.net/k/docket/index.shtml>> accessed 28.08.17.

#### [4.2.2.A] District Court – First Instance

In August of 2007, the District Court for the Northern District of California issued its ruling on the motions filed by Jacobsen and Katzer.<sup>615</sup> Of particular relevance to the question of FOSS licence enforcement was the section of the judgment dealing with Jacobsen’s claim for copyright infringement. The District Court rejected Jacobsen’s copyright claim, denying the motion for a preliminary injunction.<sup>616</sup> The Court reasoned that the claim for infringement would succeed where the defendant was shown to have acted outside the scope of the licence.<sup>617</sup> It considered the scope of the Artistic Licence to be ‘intentionally broad’, such that the restrictions on use did not constitute scope limitations or conditions on the grant.<sup>618</sup> The Court went on to clarify that Katzer’s failure to insert a prominent notice of attribution ‘may have constituted a breach of the non-exclusive licence, *but does not create liability for copyright infringement where it would not otherwise exist* (emphasis added)’.<sup>619</sup> This forms the critical part of the judgment because it explicitly characterises the Artistic Licence’s restriction in question as a contractual covenant and, more importantly, suggests why it is to be understood as such. Evidently, the Court felt that to recognise a copyright infringement claim for Katzer’s failure to give attribution would be to extend the scope of Jacobsen’s exclusive rights beyond that conferred by the Copyright Act.<sup>620</sup> Given that US law does not generally recognise non-economic rights like an

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<sup>615</sup> *Jacobsen v Katzer*, 2007 WL 2358628 (N.D. Cal)

<sup>616</sup> *Ibid* 7

<sup>617</sup> *Ibid*

<sup>618</sup> ‘The condition that the user insert a prominent notice of attribution does not limit the scope of the license.’ *Ibid*

<sup>619</sup> *Ibid*

<sup>620</sup> This notion of exercising rights beyond those conferred by 17 U.S.C. §106 will be revisited below, see Section 5.2.1.A(ii).

exclusive right to attribution, it makes sense *prima facie* that no infringement claim could arise.<sup>621</sup>

Unsurprisingly, the decision was met with frustration and criticism.<sup>622</sup> In response, it was argued that the actual act of infringement was not the failure to provide attribution *per se*, but was simply the act of making copies, distributing copies to the public, and creating derivatives of the decoder files without permission – all acts that unquestionably fell within the scope of exclusive rights conferred by statute.<sup>623</sup> Viewed in this light, the Court’s assertion that Jacobsen’s claim was seeking to create copyright liability ‘where it would not otherwise exist’ was difficult to accept. This is not to say that the Court’s intuition wasn’t sound.<sup>624</sup> Many would agree that there is something intuitively problematic with allowing a copyright claim in respect of one’s failure to perform some positive act.<sup>625</sup> However, the problem is more accurately understood as one of leverage rather than scope – i.e. to what extent can the exclusive rights be leveraged to affect behaviour that is unrelated to copyright law. Accordingly, the Court demonstrated good intuition, but ultimately failed to draw the distinction between scope and leverage. The decision received

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<sup>621</sup> See, *Gilliam v American Broadcasting Companies.*, 538 F.2d 14 (2d. Cir. 1976) (‘American copyright law, as presently written, does not recognize moral rights or provide a cause of action for their violation, since the law seeks to vindicate the economic, rather than the personal rights of authors.’). There is, however, limited recognition of moral rights under 17 U.S.C. §106A. For more on moral rights in the US, see generally, *Adeney* (n 161) Section 15

<sup>622</sup> *Fabricius* (n 196) 65; Radcliffe, *New Open Source Legal Decision: Jacobsen & Katzer and How Model Train Software Will Have an Important Effect on Open Source Licensing* (Law & Life: Silicon Valley, 22 August 2007) <<http://lawandlifsiliconvalley.blogspot.co.nz/2007/08/new-open-source-legal-decision-jacobsen.html>> accessed 28.08.17; Galli, *Open-Source Licensing Suffers Setback in Court* (E-week, Aug. 28, 2007) <[www.eweek.com/c/a/Linux-and-Open-Source/OpenSource-Licensing-Suffers-Setback-in-Court](http://www.eweek.com/c/a/Linux-and-Open-Source/OpenSource-Licensing-Suffers-Setback-in-Court)> accessed 28.08.17.

<sup>623</sup> See below, *Brief of Amici Curiae* (n 628)

<sup>624</sup> See, *Newman* (n 120) 1153 (arguing that the District Court’s ‘intuition was sound, but erroneously applied’.)

<sup>625</sup> Copyright is generally understood to be a purely exclusionary right. It does not confer upon the right-holder the ability to compel others to perform positive acts, see *Rahmatian* (n 9) 23

a fair amount of criticism as a result.<sup>626</sup> Finally, not only was the decision criticised on the grounds of legal reasoning, but also quite candidly on the grounds that the result effectively rendered FOSS licences unenforceable in any meaningful way.<sup>627</sup>

With his motion for preliminary injunction denied, Jacobsen appealed to the CAFC on the issue of copyright infringement. Given the existential threat posed to the validity of the FOSS licensing model, those with vested interests in the enforceability of the licence templates began to pay much closer attention to the dispute. In support of Jacobsen's appeal to the CAFC, a consortium of high-profile companies and organisation engaged in creation and use of FOSS prepared an *amicus curiae* brief setting out arguments grounded in both policy and law.<sup>628</sup> In terms of policy arguments, the amicus brief emphasised the importance of FOSS as a driver of innovation and creativity, also highlighting the role licences play in ensuring 'software freedoms' in democratic society.<sup>629</sup> In this respect, it argued that the District Court 'may not have understood the potential reach of its decision' – a decision that, if applied broadly to FOSS licences, 'could disrupt the settled expectations on which literally millions [...] have built businesses, educational initiatives, artistic collaborations and public service projects'.<sup>630</sup> The brief sets out in detail why infringement remedies are considered an 'essential component' of FOSS licensing,<sup>631</sup> how the District Court erred in law by misapplying the relevant authority and misreading the

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<sup>626</sup> See above (n 622)

<sup>627</sup> *Ibid*

<sup>628</sup> Falzone and Ridder, *Brief of Amici Curiae Creative Commons Corporation, the Linux Foundation, the Open Source Initiative, Software Freedom Law Centre, Yet Another Society, the Perl Foundation, and Wikimedia Foundation, Inc. In Support of Plaintiff-Appellant and Urging Reversal* (28.12.2007) <[http://jmri.sourceforge.net/k/docket/cafc-pi-1/ccc\\_brf.pdf](http://jmri.sourceforge.net/k/docket/cafc-pi-1/ccc_brf.pdf)> accessed 28.08.17.

<sup>629</sup> *Ibid* 15

<sup>630</sup> *Ibid* 6

<sup>631</sup> *Ibid* 15-17

express language of the licence, and how the unique nature of the licences should inform their interpretation.<sup>632</sup> Central to the brief's legal argument is the idea that copyright holders are entitled to freely create scope limitations and conditions on a licence grant. Interestingly, the brief explicitly acknowledges that FOSS licence templates essentially achieve their subversive 'hack' through 'leveraging copyright'.<sup>633</sup> The underlying assumption is that this kind of leveraging should be permitted vis-a-vis FOSS licence templates given that they 'promote innovation' and 'stimulate the creation of works' in accordance with the objectives and goals of US copyright law.<sup>634</sup> In this respect, the intuitive concerns of the District Court were not misplaced. FOSS licence templates seem to function in a way that is potentially problematic and this undoubtedly warrants further consideration of the broader policy questions raised by the leveraging of copyright.<sup>635</sup> As already stated, however, the District Court failed to correctly identify the legal issue, and thus failed to touch upon the real policy question raised by Jacobsen's infringement claim: to what extent should US law allow copyright to be leveraged to affect other behaviour not strictly within the scope of copyright? While the *amicus* brief clearly took a stance on this issue, it was one that understandably focused solely on the beneficial aspects of leveraging.

Overall, the *amicus* brief worked to complement the arguments put forward by Jacobsen in his appellant brief.<sup>636</sup> In his reply, Katzer simply affirmed the District Court's

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<sup>632</sup> *Ibid* 27

<sup>633</sup> *Ibid* 11-15

<sup>634</sup> *Ibid* 11

<sup>635</sup> The following chapter highlights and discusses some of the issues raised by leveraging and the role that certain doctrine may play in responding to the issues (e.g. federal pre-emption, misuse), see Section 5.2.1.B below.

<sup>636</sup> *Brief of Robert G. Jacobsen, Plaintiff-Appellant* (17.12.2007) <<http://jmri.sourceforge.net/k/docket/cafc-pi-1/AppellantsBrief.pdf>> accessed 28.08.17.

view that the licence grant was unrestricted and that the conditions were merely separate contractual covenants.<sup>637</sup>

#### [4.2.2.B] CAFC – Appeal

In August of 2008, the CAFC issued its judgment vacating and remanding the District Court’s decision on Jacobsen’s claim for copyright infringement.<sup>638</sup> What is striking about the judgment is that it not only affirms Jacobsen’s claim for copyright infringement, but perhaps more importantly it embodies a greater awareness or appreciation of FOSS licensing objectives and the significance of providing a firm legal basis for the system within the system. Indeed, Judge Hochberg’s judgment is littered with statements that reflect a more informed understanding of the unique role of FOSS as an alternative model for the exploitation of software and the potential reach of the decision; factors clearly emphasised by the brief of the *amici curiae*.<sup>639</sup> Certainly, these pro-FOSS statements leave little doubt as to the CAFC’s normative stance in relation to the licensing model, a stance that clearly shapes the CAFC’s approach to the substantive legal issues under consideration.

As a preliminary matter, it is worth noting that the CAFC seem to treat the Artistic Licence as a contract, although this is not explicitly stated by the Court. There is nothing in the judgment to suggest that the licence is ‘bare’ in nature. As evidence of this contractual approach, the Court set out to address the question of consideration, although not in the most compelling manner. On consideration, Judge Hochberg states the following:

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<sup>637</sup> *Brief of Matthew Katzer and Kamind Associates, Appellees* (29.01.2008) <[http://jmri.sourceforge.net/k/docket/cafc-pi-1/Appellee\\_brief.pdf](http://jmri.sourceforge.net/k/docket/cafc-pi-1/Appellee_brief.pdf)> accessed 28.08.17

<sup>638</sup> *Jacobsen v. Katzer*, 535 F.3d 1373 (Fed. Cir. 2008)

<sup>639</sup> *Brief of Amicus Curiae* (n 628)

Traditional copyright owners sold their copyrighted material in exchange for money. The lack of money changing hands in open source licensing should not be presumed to mean that there is no economic consideration, however. There are substantial benefits, including economic benefits, to the creation and distribution of copyrighted works under public licences that range beyond traditional licence royalties.<sup>640</sup>

Indeed, the judgment provides several further statements in support of finding of consideration passing from licensee to the licensor in exchange for the licence grant.<sup>641</sup> As discussed above, many scholars in the pre-Jacobsen FOSS scholarship saw the requirement of consideration as a potential obstacle to the effective enforcement of FOSS licences.<sup>642</sup> In this respect, the decision alleviated these concerns and dispelled the notion that consideration must necessarily take the form of a conventional, discrete, monetary exchange.

With that said, while the judgement makes an effort to address the uncertainty over consideration (even if obliquely), there is surprisingly little discussion regarding offer and acceptance. In fact, the judgement fails to give any consideration as to whether Katzer was presented with the terms of the Artistic Licence and whether he could be said to have accepted them. Presumably, the CAFC proceeded on the assumption that acceptance was not dispositive to the issue on appeal and therefore warranted no attention.<sup>643</sup> Nevertheless,

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<sup>640</sup> *Jacobsen v Katzer* (n 638) 1379

<sup>641</sup> 'The choice to exact consideration in the form of compliance with the open source requirements of disclosure and explanation of changes, rather than as a dollar-denominated fee, is entitled to no less legal recognition.' *Ibid* 1382

<sup>642</sup> See above (n 570)

<sup>643</sup> N.b. Katzer had no interest in challenging the validity of the Artistic Licence on grounds of formation. Indeed, without a valid licence he would be open to infringement claim for unauthorised reproduction.

as a result, the decision fails to provide any clear guidance on an issue that has been central to FOSS scholarship debates.

Having addressed these preliminary issues, the Court finally arrived at what was considered to be the ‘heart of the argument on appeal’, namely, ‘whether the terms of the Artistic Licence are conditions of, or merely covenants to, the copyright licence’.<sup>644</sup>

Judge Hochberg begins her analysis by looking at the express language of the Artistic Licence in an effort to discern whether the intention was to create ‘conditions’ or ‘mere covenants’.<sup>645</sup> She points to the preamble of the licence, which explicitly states that the ‘intent of [the] document is to state the conditions under which a Package may be copied (Court’s emphasis)’.<sup>646</sup> Judge Hochberg then highlights how the specific wording of the Artistic Licence’s granting clause (Section 1) is a clear example of the ‘traditional language of conditions’ – in particular, its use of the wording ‘provided that’ as a means by which to link the restrictions to the grant of rights.<sup>647</sup> In determining what constitutes the ‘traditional language of conditions’, Judge Hochberg defers to the authority of state contract law, citing a Californian Supreme Court ruling that held that the use of the same words (i.e. ‘provided that’) denoted a condition.<sup>648</sup>

Thus, the CAFC’s analysis is first and foremost an exercise in contractual interpretation. With that said, the interpretation is not confined solely to the literal wording of the licence template. Indeed, the Court goes beyond the express language of the text to

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<sup>644</sup> *Jacobsen v Katzer* (n 638) 1380

<sup>645</sup> *Ibid* 1381. N.b. The CAFC judgment does not draw a distinction between the (a) intent of the licence drafter as expressed through the text of the template and (b) the intent of the actual parties to the licence who have adopted the licence.

<sup>646</sup> *Ibid*

<sup>647</sup> *Ibid*

<sup>648</sup> *Diepenbrock v Luiz*, 159 Cal. 716 (1911)

consider the overarching objectives of FOSS and the purpose of conditions more generally in the copyright licensing context. Adopting this more purposive approach, Judge Hochberg stresses how the literal interpretation of the provisions aligns with both the objectives of FOSS and the purpose of licence conditions more generally:

Copyright licences are designed to support the right to exclude; money damages alone do not support or enforce that right. The choice to exact consideration in the form of compliance with the open source requirements of disclosure and explanation of changes, rather than as a dollar-denominated fee, is entitled to no less legal recognition. Indeed, because a calculation of damages is inherently speculative, these types of license restrictions might well be rendered meaningless absent the ability to enforce through injunctive relief.<sup>649</sup>

This statement is particularly significant because it signals judicial recognition of an argument that had been repeatedly asserted by FOSS advocates, namely, that injunctive relief is an essential to ensuring FOSS licence objectives.<sup>650</sup> Indeed, it is this excerpt of the CAFC's judgment which is routinely cited as the most succinct and unequivocal validation of FOSS licences by a US court.

Finally, the judgment addresses – albeit in a rather oblique manner – the concerns over whether Jacobsen's claim effectively leveraged his exclusive rights to affect non-economic behaviour that did not fall within the scope of copyright. While Judge Hochberg acknowledges that US copyright law does not protect non-economic interests such as an author's right of attribution (i.e. moral rights),<sup>651</sup> she rejects the assertion that the Artistic

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<sup>649</sup> *Jacobsen v Katzer* (n 638) 1382

<sup>650</sup> See Section 2.3.1. above.

<sup>651</sup> Citing *Gilliam v American Broadcasting Companies* (n 621)

Licence's terms are directed towards the protection of such interests.<sup>652</sup> Instead, Judge Hochberg finds that the notice and attribution requirements promote economic interests and as such can be easily distinguished from mere 'author attribution' cases.<sup>653</sup>

The judgment concluded that the terms of the Artistic Licence were enforceable copyright conditions and that, by failing to comply with those terms, Katzer had infringed Jacobsen's copyright. The CAFC then vacated and remanded the decision, leaving it for the District Court to assess whether a preliminary injunction should be granted.<sup>654</sup> The CAFC decision was widely heralded as a major victory for FOSS even though Jacobsen had not yet obtained relief. But, the judgment made it clear that for the preliminary injunction to issue, Jacobsen only needed to demonstrate to the District Court a likelihood of success on the merits as this would in turn generate a presumption of irreparable harm, thus satisfying the legal standard for injunctive relief.<sup>655</sup> This led many to simply assume that the CAFC's finding of infringement would automatically result in the issuance of a preliminary injunction by the District Court. However, this assumption and the legal basis on which it rested would later prove to be unsound.

#### **[4.2.2.C] District Court - On Remand**

By the time the case had made its way back to the District Court, public interest in the dispute had largely subsided. For most FOSS commentators and the general media, it

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<sup>652</sup> *Jacobsen v Katzer* (n 638) 1382

<sup>653</sup> *Ibid*

<sup>654</sup> *Jacobsen v Katzer* (n 638) 1383

<sup>655</sup> *Ibid* 1378 ('In determining whether to issue a preliminary injunction, the Ninth Circuit requires demonstration of (1) a combination of probability of success on the merits and the possibility of irreparable harm; or (2) serious questions going to the merits where the balance of hardships tips sharply in the moving party's favour'.)

seemed as though the ‘victory’ had been secured and the legal precedent established.<sup>656</sup> Indeed, the District Court needed only to rubber stamp the decision with the issuance of the preliminary injunction. However, the District Court failed to deliver on these expectations. Instead, it denied Jacobsen’s motion for injunctive relief, notwithstanding the fact that he had established an infringement claim on the merits.<sup>657</sup> In short, the applicable legal standard by which US courts assessed whether to grant an injunction had changed as a result of the Supreme Court’s decision in the patent case *eBay v Mercexchange*.<sup>658</sup> Under the new legal standard, Jacobsen had to, *inter alia*, demonstrate that he was likely to suffer irreparable harm in the absence of preliminary relief.<sup>659</sup> In clarifying the evidential standard to be applied, the District Court stated:

The Federal Circuit’s list of potential harms that a copyright holder may face in the open source field are just that – *potential harms*. [...] The standard under *Winter* [which applies *eBay* in the copyright context] requires that Jacobsen demonstrate, by the introduction of admissible evidence and with a clear likelihood of success that the harm is *real, imminent and significant, not just speculative or potential* (emphasis added).<sup>660</sup>

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<sup>656</sup> The JMRI project has documented all relevant press-coverage of the CAFC’s decision, <<http://jmri.sourceforge.net/k/news.shtml>> accessed 28.08.17.

<sup>657</sup> *Jacobsen v Katzer*, 609 F.Supp. 2d. 925 (N.D.Cal. 2009)

<sup>658</sup> See, *eBay Inc. v MercExchange LLC* (n 244). At first, it was not clear whether the ratio in *eBay* applied only in respect of patent infringement. However, the decision soon found itself being applied in the copyright context. The fact that the CAFC did not apply the *eBay* standard in their judgment is attributable to jurisdictional lag between the circuits and the Federal Circuit, see, Klewin, *Reconciling Federal Circuit Choice of Law with eBay v Mercexchange’s Abrogation of the Presumption of Irreparable Harm in Copyright Preliminary Injunctions* (2012) 80 Fordham L. Rev. 2113. The effects of *eBay v Mercexchange* is discussed further below at Section 6.2.3.

<sup>659</sup> *Winter v. Natural Resources Defense Council*, 129 S. Ct. 365, 374 (2008)

<sup>660</sup> *Jacobsen v Katzer* (n 657) 937

Applying this standard, the District Court found that Jacobsen’s alleged harm was too speculative in nature.<sup>661</sup> Furthermore, the District Court stated in obiter that the ‘[e]ven if Jacobsen’s heavy burden to warrant injunctive relief had been met, it is unclear how the Court would fashion an injunction which would be narrowly tailored to enjoin only those allegedly infringing uses of Jacobsen’s copyrighted content.’<sup>662</sup> For these reasons, the motion for preliminary injunction was denied.<sup>663</sup> While Jacobsen did eventually obtain a permanent injunction as part of an out-of-court settlement with Katzer,<sup>664</sup> the decision of the District Court ultimately left a big question mark over whether FOSS licensors could obtain meaningful remedies under US law for the violation of FOSS licences restrictions and whether FOSS licensing objectives could be realised.<sup>665</sup>

#### [4.2.2.D] Overview of *Jacobsen v Katzer*

The landmark case of *Jacobsen v Katzer*, when analysed in its entirety, is far more nuanced than is often presented in FOSS literature. Indeed, the case is often portrayed as clear affirmation or validation of the FOSS licence templates, a decisive precedent on which FOSS licensors can cite as evidence of their enforceability in court. While certain aspects of this portrayal are valid, several issues raised by both the CAFC and the District Court

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<sup>661</sup> ‘Although Jacobsen makes legal arguments regarding the alleged harm he may suffer, for instance, delays and inefficiency in development and time lost in the open source development cycle, he has failed to put forward any *evidence* of such harms.’ *Ibid* fn.3

<sup>662</sup> *Ibid*

<sup>663</sup> The case also dealt with a contract claim from Jacobsen for breach of the Artistic Licence. The District Court dismissed the contract claim on two grounds: (1) lack of proximate cause to the alleged damage and (2) the claim was held to be pre-empted by Federal copyright law. *Ibid* 932-933

<sup>664</sup> *Settlement Agreement*, Case 3:06-cv-01905-JSW, Doc. 402-1 (18.02.10) <<http://jmri.org/k/docket/402-1.pdf>> accessed 18.08.17

<sup>665</sup> This question is discussed in greater detail below in Chapter Six.

are far from clear or settled. It is only through such a comprehensive analysis of the case that we begin to see how FOSS licence templates have been received into US law.

### **[4.2.3] Subsequent Case Law**

This final section gives a brief overview of the subsequent developments in US case law. It considers what effect, if any, the decision in *Jacobsen v Katzer* has had on the ongoing efforts at FOSS licence enforcement in US courts. Following the decision in *Jacobsen*, there have been relatively few reported judgements concerning the enforcement of FOSS licences. To many, this may indicate that FOSS licence enforcement is a fairly settled matter under US law. Certainly, there have been several successful FOSS enforcement claims that have resulted in compliance and confidential out-of-court settlements. However, these successful lawsuits have done little to build a body of precedent that is essential to ensuring robust licence enforcement going forward. Certainly, having a robust body of precedent acts to strengthen future claims and plays an important role in signalling the consequences of non-compliance. Instead, the relatively scarce case law that has been reported appears to raise further questions over the construction of FOSS licences under US law. The section briefly covers two ‘sagas’ in the unfolding story of FOSS licence enforcement in the United States: (i) the BusyBox litigation and (ii) the Versata Litigation.

#### **[4.2.3.A] The BusyBox Saga**

The BusyBox saga started in 2007 at around the same time that Jacobsen had filed his initial motion for copyright infringement to the District Court in California.<sup>666</sup> Whereas the

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<sup>666</sup> See, *On Behalf of BusyBox Developers, SFLC Files First Ever U.S. GPL Violation Lawsuit* (SFLC, 20 September 2007) <[www.softwarefreedom.org/news/2007/sep/20/busybox/](http://www.softwarefreedom.org/news/2007/sep/20/busybox/)> accessed 28.08.17.

*Jacobsen* litigation went on to produce several judgments dealing with the construction and enforcement of the Artistic Licence, the BusyBox lawsuits mostly concluded with undisclosed out-of-court settlements.<sup>667</sup>

The BusyBox litigation arose following the discovery that certain companies had been distributing products and appliances containing BusyBox code without disclosing the corresponding source code as per their obligations under the GPLv2.<sup>668</sup> Acting on behalf of the developers, the SFLC submitted legal complaints against these companies in the District Court for the Southern District of New York, asserting that they lacked the relevant legal permission to distribute the code and as such were committing copyright infringement.<sup>669</sup> Within months of submitting their complaints, the SFLC had managed to reach their first settlement in which it was agreed that the lawsuit would be dismissed in exchange for the publication of the corresponding source code, the appointment of an Open Source Compliance Officer and the payment of an undisclosed sum.<sup>670</sup> The SFLC continued with their compliance efforts to great success, securing similar settlements with a vast array of non-compliant companies over the subsequent year.<sup>671</sup>

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<sup>667</sup> With the exception of the court order against Westinghouse Digital LLC, see below (n 672)

<sup>668</sup> Busybox is effectively a single executable file that contains a set of standard Unix utilities. It is perfect for use within a broad range of consumer appliances, See, <<https://busybox.net/about.html>>

<sup>669</sup> See, e.g. *Andersen v. High-Gain Antennas, L.L.C.*, No. 07-CV-10456, 2007 WL 6353333 (S.D.N.Y. Nov. 19, 2007); *Andersen v. Verizon Commc'ns, Inc.*, No. 07 CV 11070, 2007 WL 6353336 (S.D.N.Y. Dec. 6, 2007); *Andersen v. Super Micro Computer, Inc.*, No. 108- CV-05269, 2008 WL 2755743 (S.D.N.Y. June 9, 2008); *Andersen v. Extreme Networks, Inc.*, No. 08-CV-06426, 2008 WL 4486847 (S.D.N.Y. July 17, 2008)

<sup>670</sup> See, *BusyBox Developers and Monsoon Multimedia Agree to Dismiss GPL Lawsuit* (SFLC, 30 October 2007) <[www.softwarefreedom.org/news/2007/oct/30/busybox-monsoon-settlement/](http://www.softwarefreedom.org/news/2007/oct/30/busybox-monsoon-settlement/)> accessed 28.08.17.

<sup>671</sup> For a comprehensive list of the settlements, see the SFLC's news archive, <[www.softwarefreedom.org/news/](http://www.softwarefreedom.org/news/)> accessed 28.08.17.

Out of all the actions filed, only one resulted in an order being issued by the courts.<sup>672</sup> In 2010 the District Court for the Southern District of New York issued a default judgment against Westinghouse Digital Technologies LLC for failing to participate in the discovery process or otherwise comply with legal proceedings. The court granted the BusyBox claimant a permanent injunction,<sup>673</sup> an order for the forfeiture of infringing articles and enhanced statutory damages for wilful infringement, trebling the damages.<sup>674</sup> However, given that the Court did not discuss the merits of the claims, the GPLv2 was not subject to rigorous legal analysis.<sup>675</sup>

In summary, the BusyBox saga can be viewed as a resounding success for the FOSS movement in the US. Certainly, the settlements are revealing of an implicit understanding that FOSS licence templates – the GPL-suite in this instance – are valid and enforceable in accordance with US law. With that said, the Busybox saga can also be viewed as a lost opportunity to subject FOSS licence templates to rigorous analysis under US law and to confer upon them the authoritative weight of judicial enforcement.<sup>676</sup> In terms of its relationship to the *Jacobsen* case, the BusyBox saga is relatively independent. The fact that the BusyBox litigation was initiated around the same time as the *Jacobsen*

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<sup>672</sup> See generally, *Best Buy, Samsung, Westinghouse, And Eleven Other Brands Named in SFLC Lawsuit* (SFLC, 14 December 2009) <[www.softwarefreedom.org/news/2009/dec/14/busybox-gpl-lawsuit/](http://www.softwarefreedom.org/news/2009/dec/14/busybox-gpl-lawsuit/)> accessed 28.08.17.

<sup>673</sup> *Software Freedom Conservancy, Inc. v. Best Buy Co.*, No. 09 CIV 10155(SAS), 2010 WL 2985320 (S.D.N.Y. July 27, 2010)

<sup>674</sup> *Ibid*

<sup>675</sup> *Ibid*

<sup>676</sup> There were several similar FOSS enforcement actions taken around this time that resulted in settlements subject to confidentiality. See, e.g. *Artifex Software Inc., v. Diebold, Inc.*, No. 308-CV-04837, 2008 WL 5457246 (N.D. Cal. Oct. 22, 2008); *Artifex Software Inc., v. Palm Inc.*, No. CV 09 5679 RS, 2009 WL 4813582, (N.D. Cal. Dec. 2, 2009); *Free Software Found., Inc. v. Cisco Sys., Inc.*, No. 1:08-CV-10764, 2008 WL 8449470 (S.D.N.Y. Dec. 11, 2008); *Twin Peaks Software Inc. v. Red Hat, Inc.*, No. 5:12-CV-00911, 2012 WL 5403098 (N.D. Cal. Sept. 13, 2012)

litigation meant that the judicial findings in the latter did not influence the outcomes in former.<sup>677</sup> We now turn to consider subsequent case law that engages more closely with the issues of FOSS template construction and enforcement.

#### **[4.2.3.B] The Versata Saga**

Versata was a company that developed and sold its ‘Distribution Channel Management’ software that is used to calculate commissions for financial advisors. In 1999, Versata entered into a Master Licence Agreement (MLA) with Ameriprise that granted to them a non-exclusive, perpetual licence to use the DCM on the condition that, *inter alia*, only certain verified third-parties would be authorised by Ameriprise to have access to the DCM database. It was later discovered that Ameriprise had allowed one of their contractors, InfoSys, to access the database without Versata’s authorisation. It was also alleged that Infosys had used this access to create a competing product. A series of legal actions were taken as a result.<sup>678</sup>

#### ***Versata v Ameriprise***

In 2013, Versata brought legal actions against both Ameriprise and Infosys for breach of contract.<sup>679</sup> In their counterclaim to that action, Ameriprise asserted that the DCM software contained third-party code that was licensed under the GPLv2 and that, as such, Versata

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<sup>677</sup> Also, the litigation was in separate states subject to different legal standards, see *Klewin* (n 658)

<sup>678</sup> Skelley provides a helpful ‘litigation topology’ for the Versata saga, see Skelley, *Open Source Tactics: Bargaining Power for Strategic Litigation* (2016) 16 Chi. Kent. J. Intell. Prop. 1, 7

<sup>679</sup> *Versata Software v. Ameriprise Financial Inc. et al*, Case No. D-1-GN-12-003588 (53rd Judicial District Court of Travis County, Texas 2014); *Versata Software Inc. v. Infosys*, Case No. 1:10cv792 (W.D. Tex. 2014)

should be compelled to release the full source code for the DCM software in accordance with their copyleft obligations. The third-party GPL code, known as VTD-XML, had been developed by a Californian company, Ximpleware Inc.<sup>680</sup> Accordingly, Ameriprise's counterclaim was not made as the right-holder in the VTD-XML code, but as a third-party beneficiary to the contractual relationship between Ximpleware and Versata under the GPL.

Versata responded by asserting that Ameriprise's third-party beneficiary claim was pre-empted by federal copyright law. With the injection of a federal issue into the case, the dispute between Versata and Ameriprise was removed to the Federal District Court of Western Texas.<sup>681</sup> This in turn presented an opportunity for the federal courts to again consider the nature of the legal restrictions in FOSS licences; an issue that had not been thoroughly addressed since the CAFC's decision in *Jacobsen v Katzer*.

Having performed the two-part pre-emption analysis,<sup>682</sup> the District Court ruled that Ameriprise's breach-of-copyleft counterclaim was not pre-empted by federal copyright law:

The Court agrees with Ameriprise, though not because the GPL's so-called "copyleft" scheme is entirely distinct from copyright law. The GPL imposes an affirmative obligation on any license holder to make the code of any derivative work freely available and open source. If the license holder fails to comply, as

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<sup>680</sup> Thus, Ameriprise asserted a GPL claim that was not based on copyright, but instead on third-party beneficiary rights under contract. It must be noted that this is not a conventional set of FOSS enforcement facts, which may explain the variations in the legal findings.

<sup>681</sup> *Versata Software Inc. v. Ameriprise Financial Services Inc. et al.*, Case No. 1:14-cv-12, (W.D. Tex. District of Texas 2014)

<sup>682</sup> *Carson v Dynegy, Inc.* 344 F.3d 446, 456 (5<sup>th</sup> Cir. 2003). For more detailed discussion of pre-emption analysis under US law, see Section 5.2.1.B(i) below.

Versata is alleged to have done, the GPL purports to terminate, and the license holder is potentially liable for copyright infringement for distributing or copying the software without permission. [...] The “viral” component of the GPL is separate and distinct from any copyright obligation. Copyright law imposes no open source obligations, and Ameriprise has not sued Versata for infringing Ximpleware’s copyright by distributing VTD-XML without permission. Instead, Ameriprise has sued based on Versata’s breach of an additional obligation: an affirmative promise to make its derivative work open source because it incorporated an open source program into its software. Ameriprise’s claim therefore requires an “extra element” in addition to reproduction or distribution: a failure to disclose the source code of the derivative software. [...] The presence of an additional contractual promise separate and distinct from any rights provided by the copyright laws means Ameriprise’s claim is not pre-empted.<sup>683</sup>

Thus, the District Court considered the GPL’s copyleft provision to be a contractual obligation that went over and above what the Copyright Act requires.<sup>684</sup> Such a finding is by no means inconsistent with the restriction also being deemed capable of giving rise to copyright liability if breached.<sup>685</sup> Indeed, the District Court explicitly state that the breach of the distinct contractual promise will also purport to terminate the GPL, thus making Versata liable for infringement of Ximpleware’s copyright should they continue to use or distribute the work.<sup>686</sup> This highlights the key role played by the express ‘catch-all’

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<sup>683</sup> *Versata v Ameriprise* (n 681)

<sup>684</sup> Similar to the first instance finding of the District Court in *Jacobsen v Katzer*, see (n 615)

<sup>685</sup> However, an infringement claim would only be enforceable by Ximpleware as Ameriprise only has a third-party contractual interest. On Ximpleware’s distinct copyright claim, see below (n 691)

<sup>686</sup> *Versata v Ameriprise* (n 681)

termination condition in ensuring that the breach of GPL restrictions give rise to copyright liability even where those restrictions are deemed to be mere covenants.

However, the District Court's decision does raise some questions over its consistency with the CAFC's ruling in *Jacobsen v Katzer* in which it was held that the Artistic Licence's notice restrictions were 'conditions' and not 'covenants'.<sup>687</sup> Indeed, it appears *prima facie* as though the two decisions are contradictory. However, this is not the case. A licence restriction does not need to be a covenant *or* a condition; the two are not necessarily mutually exclusive. It is possible for a restriction to be *both* a covenant (i.e. promise of future performance or forbearance) and a condition (i.e. an operative event that triggers a change in the legal relations). For example, a licence term that states that 'You may reproduce this work provided that you pay the \$20 fee' may be characterised as both a promise to pay \$20 in future and a condition on the grant of rights.

Overall, while it is possible to reconcile the two decisions on this basis,<sup>688</sup> the District Court's treatment of the federal pre-emption issue nevertheless highlights the porous line between copyright and contract and the difficulties that US courts face in navigating it with respect to FOSS licence restrictions. As has been stated already, FOSS licences are designed to leverage copyright in a way that can ensure the licensees are subject to affirmative obligations to perform certain acts that do not fall within the scope of copyright. It is this leveraging of copyright that has raised – and continues to raise –

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<sup>687</sup> *Jacobsen v Katzer* (n 638) 1381; see also, Williamson, *Lawsuit threatens to break new ground on the GPL and software licensing issues* (Opensource.com, 30 July 2014) <<https://opensource.com/law/14/7/lawsuit-threatens-break-new-ground-gpl-and-software-licensing-issues>> accessed 28.08.17.

<sup>688</sup> Williamson reconciles the two decisions by distinguishing the nature of the claims (i.e. a copyright claim by the author in *Jacobsen* versus a contract claim by a third-party beneficiary in *Ximpleware*). Viewed in this light, the two decisions are certainly reconcilable. *Williamson* (n 687)

many questions and concerns over the exact relationship between copyright and contract law under FOSS licence templates.

Having ruled that the GPL-based counterclaim was not pre-empted by federal copyright law, the District Court then remanded the decision to the Texas State Court for it to be determined whether, as a matter of state law, Ameriprise had standing to enforce the GPL copyleft provision as a third-party beneficiary. However, before a final decision could be reached in the case, the parties agreed to dismiss the case.

### *Ximpleware v Versata et al*

In late 2013, while Versata and Ameriprise were engaged in the early stages of their litigation, Ximpleware – having been made aware of the alleged GPL violations by Ameriprise – decided to take action by filing claims against Versata and their customers in the Northern District of California. These claims alleged, *inter alia*, that Versata and their customers had infringed Ximpleware’s copyright in the VTD-XML software by failing to comply with the GPLv2’s source code obligations and had also infringed Ximpleware’s patent rights.

As a preliminary response, Ximpleware sought to obtain a temporary restraining order (TRO) and expedited recovery against both Versata and Ameriprise on the grounds of, *inter alia*, copyright infringement. Under US law, the standard for the issuance of a TRO is the same standard as that for the issuance of a preliminary injunction.<sup>689</sup> Accordingly, the District Court had to assess whether Ximpleware’s application for the

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<sup>689</sup> *Burgess v Forbes*, No. C 09-629 JF (HRL), 2009 WL 416843 (N.D. Cal. 2009). (‘The standard for issuance of a temporary restraining order is the same for issuance of a preliminary injunction.’)

TRO satisfied the four-factor test from *eBay*.<sup>690</sup> Crucially, in applying the four-factor test, the District Court made it clear that the presumption of irreparable harm was no longer good Ninth-Circuit law.<sup>691</sup> Without the presumption, the Court found that Ximpleware was unable to show that there would be irreparable harm suffered in the absence of a TRO or preliminary injunction. Material to this finding was a declaration from the CEO of Versata stating (i) that the company did not anticipate any more sales of the DCM software in that calendar year and (ii) that they would create and distribute to existing DCM customers a ‘patch’ which upon installation would work around the VTD-XML software and eliminate all references to Ximpleware.<sup>692</sup>

Unsurprisingly, this early decision foreshadowed the District Court’s subsequent ruling on the motion for a preliminary injunction. In this latter decision, the Court once again refused to grant the relief sought by Ximpleware, reiterating that – whether Ximpleware could demonstrate a claim on the merits or not – there was still no evidence of irreparable harm.<sup>693</sup> Once again, the District Court cited evidence from Versata detailing how all eight of their existing customers had been issued a patch, albeit with only four having confirmed that they had installed it.<sup>694</sup> Thus, instead of granting the injunction, the Court ordered Versata to prove by a certain date that the remaining four customers had installed the patch and that it was functional.

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<sup>690</sup> *XimpleWare Corp. v. Versata Software Inc. et al.* Case No. 3:13cv5160, Doc. 45 (N.D. Cal. 2014)

<sup>691</sup> *Ibid*

<sup>692</sup> *Ibid*

<sup>693</sup> *Order Re: Plaintiff’s Motion for Preliminary Injunction*, Case 5:2013cv05160, Doc. 128 (25.10.2014) <<https://docs.justia.com/cases/federal/district-courts/california/candce/3:2013cv05160/271647/128>> accessed 28.08.17.

<sup>694</sup> *Ibid*

The decision highlights the difficulties claimants now face in satisfying the new standard for injunctive relief, even when there is clear evidence of copyright infringement. As such, the decision echoes that of the District Court in *Jacobsen* which denied Jacobsen's request for a preliminary injunction because the alleged harms were too 'speculative or potential' in nature.<sup>695</sup> As will be further discussed in Chapter Six, both these decisions represent a shift in US law from a property rule to a liability rule, a shift that clearly has the potential to frustrate the objectives of FOSS licence templates.<sup>696</sup>

Finally, it is worth briefly noting that in a separate decision concerning Ximpleware's patent infringement claims, the District Court upheld the GPL's direct licensing provision as valid in accordance with US law.<sup>697</sup> In short, the Court held that those who had acquired the GPL-covered code and had acted in accordance with the GPL's terms would not be liable for direct infringement, notwithstanding any upstream violations, because the GPL established a direct licence between Ximpleware and each recipient of the VTD-XML code.<sup>698</sup>

In summary, the Versata saga can be viewed as something of a step backwards for FOSS licence enforcement in the United States. The decisions highlight how there is still uncertainty as to whether FOSS licence templates can achieve their specific enforcement

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<sup>695</sup> *Jacobsen v Katzer* (n 657)

<sup>696</sup> See Section 6.2.3 below.

<sup>697</sup> *XimpleWare Corp. v. Versata Software Inc. et al.*, Case No. 3:13cv5160, Doc. 85 (N.D. Cali. 2014)

<sup>698</sup> 'The May decision was very important because it confirms that the structure of the GPLv2 works: because the GPLv2 is a direct licence from the owners of the intellectual property in the software, a violation by one entity in the distribution chain (Versata) does not affect the rights of its customers (the Customer Defendants) unless they separately breach the GPL.' See, Radcliffe, *GPLv2 goes to court: More decisions from the Versata tarpit* (Opensource.com, 15 December 2014) <<https://opensource.com/law/14/12/gplv2-court-decisions-versata>> accessed 28.08.17. The decision was also important in that the Court addressed the often-asked question of what constitutes 'distribution', i.e. whether use by subcontractors can fall within definition of 'internal use'. The District Court held that providing subcontractors with the software it did not amount to distribution.

objectives. Indeed, the District Court’s refusal to grant a TRO or preliminary injunction to the claimant, notwithstanding a finding of infringement on the facts, underscores the extent to which the shift in the remedial landscape has undermined the effective enforcement of FOSS licence templates under US law.

#### [4.2.4] Concluding Remarks

Compared to Germany, the United States has a relatively patchy framework of reported case law on the enforcement of FOSS licences. The CAFC’s landmark decision in *Jacobsen v Katzer*, while clearly establishing that the licence restrictions are enforceable in copyright as ‘conditions’, ultimately failed to provide the necessary relief to the FOSS claimant. Subsequent developments in US case law are revealing of both success and failure. That there has been numerous out-of-court settlements and little reported case law may indicate the robustness of FOSS claims under US law. It may also simply reflect the fact that the remedies available to parties under US copyright law favour an ‘all-or-nothing’ approach which encourages both parties to compromise and settle.<sup>699</sup> Certainly, the consensus in US scholarship is that the basic questions over validity and enforcement of FOSS licence templates are settled. However, when we subject the case law to more critical and ongoing analysis, we find that this consensus may be resting on shaky ground.<sup>700</sup>

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<sup>699</sup> On this point, see, Afori, *Flexible Remedies as a Means to Counteract Failures in Copyright Law* (2011) 29 *Cardozo Arts & Ent. L. J.* 1, 3

<sup>700</sup> At the time of writing, the District Court for the Northern District of California issued a decision concerning the enforcement of the GPL in the case of *Artifex Software, Inc. v. Hancorn, Inc.*, No. 16-cv-06982-JSC, 2017 U.S. Dist. 2017 WL 1477373 (N.D. Cal. Apr. 25, 2017). In denying the defendant’s motion to dismiss, the District Court held in the decision that, *inter alia*, the GPL is a valid contract, that contractual claims based on the GPL were not pre-empted by Federal Copyright law, and that the imposition of specific performance as a remedy was ‘extremely dubious’. The case is now pending judgment of the full trial.

### **[4.3] Chapter Summary**

This chapter analysed the processes by which FOSS licence templates have been embedded into German and US law. Both scholars and judges in each jurisdiction have sought to give effect to the teleological objectives of FOSS licences by upholding certain features in the licence templates. That each legal system has responded to the licence templates in different ways reflects the need to correlate the templates with existing doctrine and rules which are specific to each system. While both jurisdictions have enforced FOSS licence templates, it is unwise to take these decisions at face value as the question of enforcement is highly nuanced and subject to ongoing developments. In Chapter Six, we will return to consider some recent developments that have the potential to undermine the ability of FOSS licence templates to achieve their objectives. Before this, however, the next chapter will consider what the broader consequences of FOSS licence enforcement have been for both German and US licensing frameworks respectively. Thus, the conclusion of Chapter Four marks the end of this thesis' descriptive and typological analysis of FOSS licence templates and their treatment under domestic law. The remaining chapters look to the broader legal framework in which FOSS licence enforcement has taken place. In doing so, the following chapters examine some of the more normative issues that arise from establishing FOSS as a 'system within a system'.

## **Chapter 5: The Unintended Consequences of FOSS Licence Enforcement**

### **[5.0] Introduction**

This chapter considers some of the broader consequences of the FOSS enforcement case law in both Germany and the United States. It highlights the potential dangers of building a system within a system; the most notable danger being the potential for unintended consequences to arise as a result. Indeed, as courts give legal effect to the subversive system of FOSS licence templates, largely in pursuit of certain policy objectives, they invariably transform the system in which those templates are situated in ways that were unintended or unanticipated. Thus, this chapter reveals how the courts in both Germany and the US have effectively paved the way for proprietary software licensors to adopt similar drafting techniques and features to achieve outcomes previously unattainable under law. In this respect, when used in commercial and consumer licensing models, these drafting techniques and features have the potential to disturb the balance of copyright regimes in favour of right-holders, much to the detriment of users, competitors and the broader public. Such an outcome was clearly not intended or anticipated by German and US courts when enforcing FOSS licence templates, yet the rulings potentially have this effect when applied more generally. The chapter also considers various features of both German and US law that may act to mitigate the more egregious forms of abuse made possible by the FOSS case law.

### **[5.1] Germany**

The landmark decision in *Welte v Sitecom* established the following: (i) that FOSS licence restrictions do not constitute valid *in rem* limitations (scope limitations) on the use right,

(ii) that the restrictions could be linked to an express ‘catch-all’ termination condition which acts as a condition subsequent on the grant of rights, (iii) that breach of a restriction linked to this termination condition therefore gives rise to copyright liability *ex tunc*, (iv) that such a termination condition does not constitute a circumvention of Section 31 UrhG provided that it does not affect the rights enjoyed by third-parties downstream, (v) that the direct licensing provision is effective and works to ensure that third-party rights remain unaffected, (vi) that the termination condition and the GPL’s restrictions are valid under Sections 307 of the BGB and (v) that exhaustion does not limit the power of FOSS licensors to enforce such restrictions when copies are made available online or pursuant to having lost rights. With these findings, the German courts repeatedly held that FOSS licences (or more accurately, the GPL suite of licences) were valid and enforceable under German law, thus giving effect to the subversive ‘system within the system’. The question now under consideration is whether and to what extent proprietary licensors in the commercial and consumer context may adopt similar features in their licences and, if so, what consequences this may have.

There is little in the Munich Court ruling, or indeed any of the German decisions, to suggest that the above legal findings are limited to the FOSS context.<sup>701</sup> The decisions are built on principles of general copyright contract law which could be applied to any form of copyright licence.<sup>702</sup> It is therefore entirely conceivable that a proprietary licensor could

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<sup>701</sup> As noted by Thomas Hoeren in his critique of the Munich Court decision, ‘[i]f I were a producer of proprietary software products, I would be very happy with the judgment of the district court because nobody can prevent the producers of proprietary software from likewise using a condition subsequent.’ See, *Hoeren* (n 515)

<sup>702</sup> This is a point that is thoroughly developed by Westkamp in his commentary on the Munich decision, see generally, *Westkamp* (n 461)

employ similar features under German law in pursuit of licensing objectives that are very different to those embodied in FOSS licence templates.<sup>703</sup>

### **[5.1.1] Disturbing the Delicate Architecture of German Copyright Contract Law**

German copyright contract law (*Urhebervertragsrecht*), and the more specific body of software contract law (*Softwarevertragsrecht*), are both comprised of several interacting legal doctrines that strike a balance between the interests of right-holders and various other stakeholders.<sup>704</sup> These bodies of law recognise certain rights and powers of authors, but also impose certain limitations on the exercise of these rights and powers in the interests of broader public policy. When we consider these doctrines as the moving parts of a larger apparatus, we see that balance is achieved through a careful calibration of these doctrines *inter se*. Indeed, in keeping with the formalistic and conceptual nature of German law, each doctrine performs a specific role within the broader legal framework.<sup>705</sup> Thus, it may come as no surprise that a broad-brushed, monolithic approach to the validation of certain licence features in pursuit of certain policy outcome (i.e. to ensure the effectiveness of the FOSS licensing model) might have the effect of disturbing this ‘delicate architecture’ and the interests it seeks to maintain in balance.<sup>706</sup>

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<sup>703</sup> Westkamp is critical of the Munich Court’s failure to limit the FOSS decisions in this manner: ‘A qualification as a discreet open source contract 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.’ *Ibid*. The possible approaches to devising a ‘limiting formula’ will be discussed in Chapter 7.

<sup>704</sup> On the copyright contract law, see generally, Beier et al. (eds.) *Urhebervertragsrecht. Festgabe für Gerhard Schrickler zum 60. Geburtstag* (Munich, C.H. Beck, 1995). On the software contract law, see generally, Marly, *Praxishandbuch Softwarerecht* (6th ed. C.H. Beck., 2014)

<sup>705</sup> See, Zweigert and Kötz, *Introduction to Comparative Law* (3<sup>rd</sup> ed., OUP, 1998) Section A.B.II

<sup>706</sup> *Westkamp* (n 461) 28

The section is structured into four sub-sections. The first considers how the Munich Court decision has paved the way for proprietary licensors to tailor their claims for violations *ex ante*. The second and third sub-sections deal with the effects vis-à-vis the exhaustion doctrine and the lawful user exception respectively. The final sub-section identifies various doctrines that may mitigate concerns over potential abuses by proprietary licensors in the commercial or consumer context.

#### **[5.1.1.A] Freedom to Tailor the Claims for Breach *Ex Ante***

There are several consequences that flow from the German courts' construction of the GPL. The most immediately apparent of these is that German licensors appear to be given the ability to tailor the type of claim – and hence remedies – that arises pursuant to a licence breach. This signals a derogation from established principles of German copyright contract law which have traditionally maintained that only certain types of restrictions will give rise to copyright claims when breached, whereas others will trigger claims exclusively in contract.<sup>707</sup>

As discussed in Chapter Four, it has traditionally been held by German courts that for a licence restriction to give rise to copyright claims on breach, it must be a valid scope limitation within the meaning of Section 31 of the UrhG,<sup>708</sup> In determining whether a restriction qualifies as a scope limitation, the German courts apply the 'distinctive market' test, holding that only those restrictions that create a distinctive market for a certain type of exploitation are capable of generating copyright claims on violation.<sup>709</sup> As will be

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<sup>707</sup> *Ahlberg/Götting* (n 454) §31 para 76; *Dreier/Schulze* (n 308) §31 para 27-29

<sup>708</sup> *OEM-Version* (n 332); *Der Heiligenhof* (n 463); *Bibelreproduktion* (n 467); *Taschenbuch-Lizenz* (n 467)

<sup>709</sup> *Ibid*

discussed further below, the distinctive market test not only plays an important role in delineating the contours of contract and copyright claims within context of an immediate licence agreement, but also serves as the means by which courts identify those restrictions that are capable of partially limiting the occurrence of exhaustion.<sup>710</sup> The present discussion focuses exclusively on the first of these two functions embedded in Section 31 of the UrhG.

As seen above, it was clear both from the early FOSS scholarship and the Munich Court's own assessment that the GPL's restrictive terms did not satisfy the distinctive market test and as such were incapable of forming scope limitations on the use right, acting instead as contractual restrictions on the grant.<sup>711</sup> This meant that a breach of the GPL's restrictions failed to provide grounds for an infringement claim in itself, generating only contractual liability instead.<sup>712</sup> Thus, both scholars and the courts naturally looked to other features within the GPL template as a way of establishing copyright liability for the breach. As discussed, the Munich Court held that Section 4 of the GPL acted as a condition subsequent to the grant of use rights (s.158 BGB), meaning that breach of any of the contractual restrictions would reverse all rights and render any future use an infringement.<sup>713</sup> The overall effect of this legal construct was to effectively allow a breach of a contractual term to give rise to copyright liability.<sup>714</sup> This begs the question: what,

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<sup>710</sup> The role of the distinctive market test in relation to exhaustion is discussed below, see Section 5.1.1.B(i)

<sup>711</sup> See *Jaeger & Metzger* (n 446); *Spindler* (n 464); *Welte v Sitecom* (n 437)

<sup>712</sup> To be clear, the term itself was found to be merely contractual in nature. This meant that breach would only give rise to contractual liability save, of course, where the restriction was tied to a condition subsequent.

<sup>713</sup> *Ibid*

<sup>714</sup> However, copyright liability arises only *ex nunc* ('from now on'). This means that the breaching licensee must make further uses of the work that are restricted by copyright to commit an infringement. Hypothetically, if a licensee were to commit a one-off breach and subsequently cease all use of the work, then it might be argued that no copyright liability arises. Of course, it is very rare that a licensee

then, of the role of Section 31 UrhG in delineating the boundaries of contractual and copyright-based liability?

Indeed, the Munich Court were clearly aware of the need to uphold the principles behind the Section 31(1) UrHG, but appeared to be primarily focused on the second function concerning downstream marketability of the work.<sup>715</sup> Given that the GPL's direct licensing mechanism limited liability to the party in breach, the Court was nevertheless satisfied that there was no circumvention of Section 31.<sup>716</sup> Thus, the outcome suggests that the Munich Court did not have any concerns over the fact that the condition subsequent essentially allowed for the contractual tailoring of claims for breach as between the immediate parties.<sup>717</sup> Here, the Court's assumption seems to be that as long as the effects are limited to the immediate parties, then those parties should have the contractual freedom to shape the claims as they see fit.<sup>718</sup> Of course, such freedom is still subject to the procedural and substantive oversight of the law on contractual obligations.<sup>719</sup> In the Munich decision, the Court was persuaded that Section 4 of the GPL did not 'unreasonably disadvantage' the immediate licensee within the meaning of Section 307 BGB because (i) the licensee could re-acquire their rights by curing the breach and (ii) the restrictions linked

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will immediately cease use after an infringement, certainly when the mere act of running a program may be considered an act that requires authorisation, see Section 69c(1) UrhG.

<sup>715</sup> *Welte v Sitecom* (n 437)

<sup>716</sup> On reading the 'contract as a whole', the Munich Court found that Section 4 and Section 6 of the GPLv2 worked to limit the effects of termination in a such a way as to avoid concerns over the marketability of the work downstream, i.e. the interest deemed to be protected by Section 31 UrhG. *Ibid.*

<sup>717</sup> *Ibid*

<sup>718</sup> This adheres with the German principle of freedom of contract (*Vertragsfreiheit*). For more on the role of this freedom of contract in the copyright licensing context, see, *Ahlberg/Götting* (n 454) §31 para 7-42

<sup>719</sup> See the discussion on contract law at Section 5.1.1.D(ii) below.

to condition subsequent were compatible with the will of the legislature as embodied in the ‘Linux clause’.<sup>720</sup>

Accordingly, by giving effect to the GPL’s termination condition, the Munich Court validated a feature that effectively allows right-holders to circumvent a key limitation of German copyright contract law; a limitation that has traditionally served to delineate the form of liability – and hence the remedy – that arises pursuant to a given licence breach. As will be discussed further below, this raises questions over the suitability of contract law as the sole framework through which to scrutinise copyright licensing terms, especially given the fact that dealings with copyright often engage broader public policy considerations that might not be captured in a discrete, bilateral contractual analysis.<sup>721</sup>

Putting aside the questions over contract law, let us consider how this new legal construct validated by the Munich Court might be adopted outside the FOSS context. To illustrate how similar drafting techniques may be used to tailor the claims in the commercial context, consider the following example:

Company A drafts a commercial licence contract that grants to Company B, a device manufacturer, the right to distribute their software pre-installed on their devices. The agreement includes in its fine-print an idiosyncratic restriction stating that any article embodying the software must be distributed in packaging made from a specific synthetic polymer. It also includes an express catch-all termination condition with a clause stating that termination does not affect the rights of any third-parties as they receive a direct licence from A to use the work.

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<sup>720</sup> Sections 31a(1), 32(3) and 32a(3) UrhG.

<sup>721</sup> See Section 5.1.1.D(ii) below.

Taking this example, if Company B were to distribute their devices to customers with packaging that did not meet the stated requirements, this would have the effect of automatically terminating the licence and rendering any future distribution of the work an infringement by B. Thus, where B continued to distribute articles embodying A's work, it would be possible for A to bring a copyright infringement claim and seek the remedies that such a claim provides.<sup>722</sup> Following the Munich Court's approach, there would be no objection from the perspective of copyright law given that the direct licensing clause ensured that the downstream marketability of rights by third parties remained unaffected. It would then just be a question of whether the packaging restriction and the termination condition are both valid and enforceable between A and B as a matter of contract law.<sup>723</sup> Conversely, had A written a licence without including a catch-all termination condition, then it is likely that A's claim would sound exclusively in contract, in turn giving rise to contractual remedies alone.<sup>724</sup> Thus, it is possible to envisage an infinite number of ways in which commercial or consumer licensors might utilise a condition subsequent with a direct licensing provision to shape their claims and remedies *ex ante*.

This has the potential to disturb the balance otherwise maintained by established German copyright doctrine in several ways. For example, it may in theory permit a licensor to assert a copyright claim for even the most trivial breach or for an act or omission that does not share a close relationship with subject matter or activities traditionally understood to fall within the scope of copyright (e.g. the right-holder may seek to leverage copyright

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<sup>722</sup> E.g. damages or cessation of infringement under Section 97 of the UrhG.

<sup>723</sup> i.e. whether the terms are compatible with substantive and procedural rules governing contractual obligations, see Section 5.1.1.D(ii) below.

<sup>724</sup> It is highly improbable that a licence term stipulating the specific type of polymer used for packaging would constitute a valid *in rem* limitation in accordance with Section 31(1) UrhG. *OEM-Version* (n 332)

claims to influence behaviour that falls outside the traditional scope of copyright).<sup>725</sup> Admittedly, such an outcome does not raise the same concerns as it does in the US given that German law does not recognise statutory damages as a remedy available for copyright claimants.<sup>726</sup> Indeed, as will be discussed below in relation to US law, one of the main concerns with allowing licensors to freely tailor their claims *ex ante* is that it opens the door for parties to seek onerous remedies, including statutory damages, for even the most trivial or idiosyncratic breach.<sup>727</sup>

### **[5.1.1.B] Circumventing the Effects of Exhaustion**

A further consequence of the Munich Court's decision is that it appears to open an avenue for copyright licensors to circumvent the effects of exhaustion.<sup>728</sup> This may not be readily apparent on a first reading of the decision given that the Court's treatment of exhaustion was fairly limited.<sup>729</sup> However, the Munich Court, in dealing with the issues concerning the nature of the GPL's restrictions, nevertheless opened an avenue for licensors to circumvent the effects of exhaustion. To better understand the impact of the decision in this regard, it will help to first set out a more detailed account of exhaustion doctrine as it is

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<sup>725</sup> This concern over the leveraging of copyright is present in both Germany and the US. As will be discussed, both jurisdictions have various legal doctrines that may act to limit this kind behaviour.

<sup>726</sup> *C.f.* 17 U.S.C. § 504

<sup>727</sup> See Section 5.2.1.A(i) below.

<sup>728</sup> It is important to note that circumventing the 'effects' of exhaustion is not the same as circumventing exhaustion itself. Exhaustion of the distribution right may still occur as a matter of copyright, but it may be that the acquirer of a copy is unable to freely distribute the work due to contractual restrictions. As will be discussed, this is an extremely contentious issue in German copyright scholarship.

<sup>729</sup> *Welte v Sitecom* (n 437)

formulated under German copyright jurisprudence (or, at least, as it was formulated at the time of the Munich Court decision).<sup>730</sup>

The German Copyright Act (UrhG) has two separate provisions dealing with exhaustion of the right of distribution. The first provides for a general exhaustion rule in relation to all categories of authorial work and can be found under Section 17(2) of the UrhG.<sup>731</sup> It states that exhaustion of the author's distribution right in a copy of the work occurs when that copy is put on to the market in the European Union or European Economic Area with the consent of the author.<sup>732</sup> The prevailing view is that exhaustion under Section 17(2) UrhG only applies in respect of tangible copies of the work.<sup>733</sup> It is also generally acknowledged that German courts have a very broad understanding of what constitutes an act of 'putting on the market with consent' for the purposes of exhaustion; one that covers every transfer or disposal of ownership in the tangible copy by the author or person acting with authorisation from the author.<sup>734</sup> Under German law, such a transfer needs to be based on a contract between the parties.<sup>735</sup> It is insufficient for the transfer to result from the

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<sup>730</sup> As will be discussed in the following chapter, there have since been notable developments to the law concerning exhaustion, e.g. Case C-128/11, *UsedSoft GmbH v Oracle Int'l Corp.* [2012] 3 C.M.L.R. 44.

<sup>731</sup> See, *Dreier/Schulze* (n 308) §17 para 24; *Cichon et al, Exhaustion Issues in Copyright Law (Q240)* (2014) GRUR Int. 290; *Hoeren, The Principle of Exhaustion of IP Rights and Copyrights in German Law* in Kilpatrick, Kobel and Kellezi, *Compatibility of Transactional Resolutions of Antitrust Proceedings with Due Process and Fundamental Rights & Online Exhaustion of IP Rights* (Springer, 2016)

<sup>732</sup> Section 17(2) UrhG

<sup>733</sup> *Dreier/Schulze* (n 308) §17 para 25. The dissemination of intangible copies of authorial works is governed by Section 19a UrhG (making available to public) which implements Article 3 of Directive 2001/29/EC (InfoSoc) and for which there is no exhaustion, see Art.3(3) and Recitals 28, 29 of Directive 2001/29/EC.

<sup>734</sup> Federal Court of Justice, No. I ZR 133/02 (03.03.2005) – *Atlanta*; See, *Mauer-Bilder* (n 454). See also, *Heerma in Wandtke/Bullinger* (n 538) §17 para 14.

<sup>735</sup> *Hoeren* (n 731) 580

operation of law.<sup>736</sup> However, exhaustion is not limited exclusively to transfers pursuant to sales contracts (i.e. Section 433, BGB).<sup>737</sup> Indeed, transfers of ownership effected by both gift contracts (Section 516, BGB) and exchange contracts (Section 480, BGB) are also capable of triggering exhaustion under Section 17 of the UrhG.<sup>738</sup> So broad is the definition of transfer that even a ‘permanent abandonment of an actual possibility of disposal’ has been deemed sufficient.<sup>739</sup> Overall, German courts are more inclined to look at the substance of the transaction rather than simply accept at the labels given by parties. Indeed, simply calling the transaction a ‘licence’ will not prevent a German court from finding that there has been a transfer of ownership in the copy, c.f. the US jurisprudence.<sup>740</sup>

The second provision dealing with exhaustion is found at Section 69c(3) of the UrhG. This separate provision governs exhaustion with respect to computer programs and, as such, serves as the implementation of Article 4(2) of Directive 2009/24/EC (Software Directive). For some time after its introduction in 1993,<sup>741</sup> it was not entirely clear whether – aside from their respective subject matter – Sections 17 and 69c(3) of the UrhG

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<sup>736</sup> For example, a transfer of ownership pursuant to Section 946 ff. BGB is insufficient, e.g. where moveable property is conveyed through operation of law due to its combination with real property. See, *Mauer-Bilder* (n 454) 676

<sup>737</sup> *Mauer-Bilder* (n 454) 675; *Wandtke/Bullinger* (n 538) §17 para 14.

<sup>738</sup> Rental or lending contracts do not constitute a transfer of ownership, see Federal Court of Justice, No. I ZR 21/99 (07.06.2001) – *Kauf auf Probe*; GRUR 2001, 1036, 1037. *Wandtke/Bullinger* (n 538) §17 para 14

<sup>739</sup> Accordingly, a ‘reservation of proprietary rights grants the seller only a temporary security and is therefore considered a permanent abandonment.’ *Hoeren* (n 731) 580. See, also *Cichon et al* (n 731) 920

<sup>740</sup> As will be discussed, some courts in the United States adopt an approach which sees them defer entirely to the label given to the transaction by the parties in determining whether there has been a ‘transfer of ownership in the copy’ for purposes of 17 U.S.C §109. See Section 6.2.1 below.

<sup>741</sup> Zweites Gesetz zur Änderung des Urheberrechtsgesetzes vom 9. Juni 1993, *BGBI* I p.910

differed.<sup>742</sup> Certainly, at the time of the initial FOSS enforcement cases, there was little to suggest that the two provisions differed greatly in terms of scope or substance.<sup>743</sup> However, as will be discussed in the following chapter, the CJEU has since clarified that the Software Directive is considered *lex specialis* in relation to the InfoSoc Directive and that, as such, the two provisions must be treated in light of the differing objectives of each directive.<sup>744</sup> Notably, this led the CJEU to hold that, *inter alia*, exhaustion under Article 4(2) of the Software Directive can apply to the intangible copies of a computer program that have been ‘sold’; a significant development which – as we shall see in the following chapter – presents certain challenges for the FOSS licensing model under German law.<sup>745</sup>

Both Sections 17 and 69c(3) of the UrhG are deemed to be mandatory provisions of statutory law.<sup>746</sup> This means that parties are unable to contract out of exhaustion.<sup>747</sup> Indeed, the principle of exhaustion is intended to protect a range of interests that the legislature deems essential; interests that, as a matter of German copyright policy, should

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<sup>742</sup> See generally, Dreier & Schulze, *Urheberrechtsgesetz* (3rd ed., C.H. Beck, 2008) §69c para 24; Hoeren, *Der urheberrechtliche Erschöpfungsgrundsatz bei der Online-Übertragung von Computerprogrammen* (2006) C.R. 573; Berger, *Urheberrechtliche Erschöpfungslehre und digitale Informationstechnologie* (2002) GRUR 198; Grützmaker, ‘*Gebrauchsoftware*’ und *Erschöpfungslehre - Zu den Rahmenbedingungen eines Second-Hand-Marktes für Software* (2006) ZUM 302; Hoeren, *Der Erschöpfungsgrundsatz bei Software - Körperliche Übertragung und Folgeprobleme* (2010) GRUR, 665

<sup>743</sup> The Frankfurt Regional Court explicitly stated in a 2006 GPL enforcement case that ‘[t]he principle of exhaustion only applies to the individual physical data carrier onto which the software is copied during the downloading process.’ *Welte v D-Link* (n 497)

<sup>744</sup> See discussion on the impact of CJEU decision in *UsedSoft v Oracle* below at Section 6.1.1.

<sup>745</sup> *Ibid*

<sup>746</sup> The position in German law has always been that the exhaustion principle is a mandatory limitation built into the property right itself, not an implied consent that can be negated (i.e. limitation *ex lege*). See Kohler, *Handbuch des deutschen Patentrechts in rechtsvergleichender Darstellung* (Mannheim, Bensheimer 1900), 452-459. However, prior to the enactment of the German Copyright Act 1965 (UrhG), the exhaustion principle was not enshrined in statute, but had been developed through case law. See overview in, Federal Court of Justice, No. I ZR 208/83 (06.03.1986) - *Schallplattenvermietung*

<sup>747</sup> *Wandtke & Bullinger* (n 538) §17 para 33

not be undermined through contractual derogation.<sup>748</sup> There is, however, a limited exception recognised in German copyright contract law which permits right-holders to create contractual restrictions on distribution in the initial licence that can partially limit the occurrence of exhaustion and thus be seen to have a quasi-*in rem* or *erga omnes* effect.<sup>749</sup> To determine whether a restriction falls within this limited exception, German courts look to Section 31 of the UrhG and apply the distinctive market test.<sup>750</sup> This test was discussed in the previous section, where the focus was on the role it plays in distinguishing the types of claims that arise pursuant to a breach.<sup>751</sup> We will now examine the distinctive market test as it applies in relation to questions concerning exhaustion and discuss how the Munich Court's decision has similarly circumvented this function of the limitation too.

(i) *Limitations within the meaning of Section 31 of the UrhG*

Section 31 of the UrhG states that German copyright holders can grant use rights that are 'limited in respect of *time, place or content* (emphasis added)'. This essentially means that German authors can grant licences that have 'scope limitations' on the grant only in respect of those dimensions.<sup>752</sup> As discussed in Chapter Three, scope limitations have the effect of carving out from the grant certain permissions that do not pass to the licensee.<sup>753</sup> When it comes to imposing scope limitations on a licensee's permission to distribute copies of the

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<sup>748</sup> *Cichon et al* (n 731) 921

<sup>749</sup> *Ibid*

<sup>750</sup> *OEM-Version* (n 332)

<sup>751</sup> See Section 5.1.1.A above.

<sup>752</sup> There are no limits on the types of contractual restrictions (i.e. covenants) that the author may create in the licence agreement. Thus, if a restriction does not fall within these dimensions, it is deemed a covenant.

<sup>753</sup> See Section 3.1.2.A.

work, however, German courts have repeatedly stated that authors do not have complete, unfettered freedom. This is because *in rem* restrictions limiting the ability to distribute copies of the work do not sit well with a mandatory rule on exhaustion. Indeed, the two are *prima facie* incompatible. Nevertheless, German courts recognise that by allowing authors to segment different markets for commercial purposes and reserve some degree control over the distribution to those markets, they can promote the remunerative function of copyright and help foster the production and distribution of works.<sup>754</sup> Thus, in balancing the commercial interests of authors and the legitimate expectations of third-party acquirers, German courts have developed a specially calibrated exception to limit the exhaustion principle in certain cases.<sup>755</sup> As already noted, this exception allows for a restriction on distribution in the initial licence agreement to be enforceable against third-parties (*erga omnes*), but only where the initial act of ‘putting the work onto the market’ is not in accordance with that stated restriction.<sup>756</sup> This will only happen where the restriction in question creates a distinctive market that is ‘in the perception of the public, clearly differentiable and constitutes a commercially and technically consistent, independent type of use’.<sup>757</sup> In practice, this requires a fairly normative analysis from the courts that often sees them defer to an abstract notion of the perception of the public.<sup>758</sup> As such, the

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<sup>754</sup> See, Reimer, *Der Erschöpfungsgrundsatz im Urheberrecht und gewerblichen Rechtsschutz unter Berücksichtigung der Rechtsprechung des Europäischen Gerichtshofs* (1972) GRUR Int. 221, 225-226. For a common law argument in support of sub-division of rights, see Anon, *A Justification for Allowing Fragmentation in Copyright* (2011) 124 Harv. L. Rev. 1751

<sup>755</sup> *Ibid*

<sup>756</sup> For exhaustion to occur, the work must be put onto the market with the author’s consent or approval (*Zustimmung*). If the licensee distributes the work in breach of an ‘*in rem*’ limitation in the initial licence, then it can be said that the licensee put the work onto the market *without* the author’s consent. See *Heerma* (n 734) §17 para 31

<sup>757</sup> *OEM-Version* (n 332); see Jaeger, *Erschöpfung des Verbreitungsrecht bei OEM-Software* (2000) ZUM, 1070

<sup>758</sup> The approach taken by courts in assessing whether a limitation satisfies the distinctive market test does not entail an empirical assessment based on expert evidence, but is instead guided by a

decisions are made on a case-by-case basis and are often highly fact-sensitive in nature.<sup>759</sup>

However, to give an example of how the exception would be applied generally in practice, consider the following:

A is the producer of a film. As the right-holder in the film, he enters a contractual agreement with a distribution company, B, granting it a non-exclusive right to make and distribute copies of the film on DVD, reserving the market for distribution on Blu-ray through an explicit restriction in the licence. If B sells tangible copies of the film to retailer C in DVD format, then the contractual restriction is satisfied and A's distribution right in respect of those copies is exhausted. A is no longer able to control or prohibit C from further distributing those copies to customers. However, if B were to make and sell copies of the film to retailer C in Blu-ray format, then a different set of considerations would come into play under German copyright law. The courts would have to consider whether the restriction on Blu-Ray copies was enforceable by A against C notwithstanding the absence of an *in personam* relationship (and notwithstanding a transfer of ownership in the copy, i.e. first sale by B to C). Here, the courts would apply the distinctive market test, focusing their analysis on whether the DVD copies constituted a technically and commercially independent type of use from the Blu-ray copies.<sup>760</sup> If the answer to this question

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normative concept of what the relevant public would consider to be a clear distinct use in economic and technical terms. This approach affords the courts a degree of discretion, arguably making the test something of a judicial policy lever. It has also attracted some criticism for being erratic. See, Berger, *Die Erschöpfung des urheberrechtlichen Verbreitungsrechts als Ausprägung der Eigentumstheorie des BGB* (2001) 201 AcP 411, 427-428

<sup>759</sup> It has proven difficult to identify common factors to each decision that have been determinative; although efforts have been made to find some overarching principles. See, Berger (n 758) 426-430. For a summary of some of the cases, see Dreier/Schulze (n 308) §31 para 36-46

<sup>760</sup> This exact set of facts was considered by the BGH in 2005. The case concerned a slightly different point of law, i.e. decided under the old Section 31(4) UrhG, but nevertheless required the BGH to consider whether DVDs and Blue-rays constituted technically and economically distinct uses. The Court held

was in the affirmative, then exhaustion would not have taken place and A would be able to prevent C from selling Blu-ray copies to their customers. If the answer was in the negative, exhaustion would occur and C would be free to redistribute the Blu-ray copies without incurring any liability neither in contract nor copyright. However, A would still be able to sue B for having breached a contractual restriction in their licence agreement.<sup>761</sup>

From this example, we can see that the exception does not amount to a full waiver of exhaustion, but simply recognises that only certain acts will lead to exhaustion.<sup>762</sup> As such, the exception, which only partially limits exhaustion, is specially calibrated to ensure that derogation from the principle of exhaustion does not undermine the interests that exhaustion is intended to uphold.<sup>763</sup> Indeed, in analysing whether a given licence restriction satisfies the distinctive market test, German courts will look to the facts of each case and try to ensure a balance between the interests of the author and the public's interest in market transparency and legal certainty.<sup>764</sup> In this respect, the exception serves as an important policy lever within the delicate architecture of the German copyright contract

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that the two were not distinct because they acted as substitutes. See, Federal Court of Justice, No. I ZR 285/02 (19.5.2005) – *Der Zauberberg*

<sup>761</sup> Provided that the contractual restriction was not otherwise deemed invalid, e.g. Section 307 BGB.

<sup>762</sup> Summarised by *Cichon et al* (n 731) 921 ('If the first seller sells the work, in breach of the contractual restriction, this does not constitute an act of distribution which can lead to exhaustion. If the work is sold by the first seller, however, in observance of the contractual restriction, this does lead to a complete exhaustion of the right of distribution. The first purchaser is not bound by the contractual restrictions of the first seller. The right is still considered to be exhausted if the first purchaser resells the work, contrary to the contractual restriction.')

<sup>763</sup> See, *Berger* (n 758) 426-430

<sup>764</sup> *Ibid*

law; a lever with which the courts can exercise their discretion in furthering copyright policy objectives.<sup>765</sup>

(ii) *The Consequences of FOSS Licence Enforcement*

Having given a more detailed account of exhaustion, we can now return to the Munich Court's decision to consider the impact FOSS licence construction has had on this important aspect of German copyright contract law. The Munich Court held that the GPL's restrictive terms did not satisfy the distinctive market test.<sup>766</sup> While it was not explicitly stated in the case, this effectively means that a tangible copy of a work made and distributed in breach of the GPL's restrictions would still constitute an act of putting the work on the market with consent of the right-holder for the purposes of Section 69c(3). The recipient of that immediate copy would then be free to redistribute it without infringing the author's distribution right.<sup>767</sup> However, this does not necessarily mean that a recipient of a tangible copy of a GPL-covered work may freely distribute the copy in accordance with their legitimate expectations as owner. Indeed, there are certain features in the GPL that may work to limit a recipient's freedom to redistribute a copy that they might otherwise expect to enjoy as its owner.

First, when a tangible copy is distributed – whether in accordance with the GPL's terms or otherwise – the recipient of that copy will take the work free of the author's

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<sup>765</sup> *Ibid*

<sup>766</sup> See *Welte v Sitecom* (n 437)

<sup>767</sup> N.b The Munich Court stated that '[i]nsofar as the distributor at the time of the production of copied objects was no longer permitted to distribute, for example due to the termination of the rights, the doctrine of first sale cannot apply and the user purchases from a nonauthorized party.' Thus, if termination has not yet taken place, exhaustion may still occur. *Ibid*

distribution right; however, they may still be bound by the terms of the direct licence agreement (Section 6, GPL). Of course, this is contingent on the (i) the initial licensee maintaining the licence notice so that the terms are validly incorporated into the legal relationship with the recipient and (ii) the terms being valid in accordance with Section 307 of the BGB.<sup>768</sup> Thus, in circumstances where these provisos have been met, the direct licensing provision will ensure that the right-holder can exert some degree of contractual control over downstream distribution of that copy, notwithstanding the occurrence of exhaustion.

Furthermore, where the initial licensee makes and distributes a copy in breach of the GPL's restrictions, the termination condition under Section 4 will automatically trigger the loss of rights *ex nunc*. It follows that any subsequent distribution of the work by the initial licensee (c.f. distribution of copies that occurred prior to – or causal to – the terminating breach) would amount to putting copies onto the market without the consent of the right-holder.<sup>769</sup> Accordingly, those who had received a copy from the initial licensee *after* termination would be receiving a copy in which the distribution right had not been exhausted. This then raises the question of whether the subsequent recipient has established a direct licence contract with the author. If not, then the subsequent recipient has no permission to use, modify or redistribute the work and any attempt to do so will constitute an infringement.<sup>770</sup> If a direct licence contract has been established, then the recipient may redistribute the copy, not because of the operation of statutory law, but because there has

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<sup>768</sup> For discussion on contractual validity, see Section 5.1.1.D(ii) below.

<sup>769</sup> This was explicitly stated by the Munich Court in their reasoning, see *Welte v Sitecom* (n 437)

<sup>770</sup> If the copy is put on to the market without consent, then the user may not redistribute, nor can they rely on the lawful user provision as the basis for simply running the program. However, they may acquire the relevant permissions for these acts directly from the author, *Ibid*.

been a direct grant of use rights from the author, in which case the restrictions on redistribution will potentially be enforceable in contract.<sup>771</sup>

Accordingly, the GPL's termination condition and the direct licensing provision work together to effectively provide a new means for controlling the downstream distribution of tangible copies. The result is that exhaustion, or at least the effects thereof, appear to be circumvented in certain circumstances. This clearly creates some tension vis-a-vis the interests that exhaustion is intended to uphold.<sup>772</sup> Indeed, it appears to undermine downstream parties' ability to act in reliance of the knowledge that ownership of a physical copy entitles them – as a matter of statutory law – to freely redistribute that copy unencumbered by restrictions. This in turn leads to increased search and information costs for parties who wish to redistribute copies they have acquired.<sup>773</sup>

Given this, we can consider how these features of the GPL template might be used by a proprietary licensor in a commercial context to tip the balance in favour of a right-holder wishing to control the downstream distribution of works. Take, for example, the following hypothetical scenario:

Commercial developer (A) grants to distributor (B) the right to make and distribute copies of an 'update' version of their CAD. The agreement has, *inter alia*, a restriction stating that copies can be sold only to those who had purchased the

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<sup>771</sup> See discussion on validity of contractual restrictions on marketability, see Section 5.1.1.D(ii) below.

<sup>772</sup> *Berger* (n 758) 418-423

<sup>773</sup> Admittedly, where the licence has been directly presented to the downstream recipient, they are a direct contracting party and have knowledge of terms governing use. However, this may still impose further information costs than the alternative.

earlier version of the software; a restriction that, per the German courts, had previously been found to fail the distinctive market test.<sup>774</sup>

Under a conventional licensing model, if B distributed copies to a retailer (C1) in breach of the restriction, then B would only be liable in contract and C1 would be free to redistribute the copies without incurring liability in copyright or contract. If B then distributed further copies to a second retailer (C2) in breach of the restriction, then the B would again breach the contract and C2 would enjoy the same position as C1. However, if Company A adopted a licensing model that incorporated both a termination condition and a direct licensing provision akin to those found in the GPL, then they would have significantly more power to enforce their restriction vis-a-vis downstream parties. Indeed, if B distributed to C1 in breach of the restriction, then B would commit a contractual breach and the licence would terminate henceforth. While C1 would take the copy distributed by B free of A's exhausted distribution right, C1 might nevertheless be bound by the terms of A's direct contract. Furthermore, B's subsequent distribution to C2 would amount to an infringement of A's copyright, meaning that C2 would need to establish a direct licence to avoid infringing copyright by using or distributing the work.

It must be noted that all of this is subject to more detailed analysis on contractual formation and the validity of terms.<sup>775</sup> Indeed, a direct contract will only be enforceable against downstream recipients if it is validly incorporated into the legal relationship. Furthermore, where the licence contract is subject to the standard business conditions (e.g. Sections 305 ff. BGB), it must be shown that in any given relationship both the express

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<sup>774</sup> See, Higher Regional Court of Frankfurt, No. 11U 20/98 (03.11.1998); Higher Regional Court of Munich, No. 29 U 5911-97 (12.02.1998)

<sup>775</sup> See 5.1.1.D(ii) below.

termination condition and the ‘earlier-version’ restriction are valid as a matter of contract law. But this is exactly the point to emphasise: the questions concerning regulation and oversight have been shifted from copyright law into the sphere of contract law alone. This shift brings with it certain normative assumptions about the nature of the legal relations between parties and reduces the role for copyright thinking to be applied in relation to questions of copyright exploitation.<sup>776</sup>

In summary, by allowing commercial and consumer licensors to adopt similar features to those found in the GPL, there is a distinct possibility that the balance of interests between authors and the public may be disturbed. Indeed, the Munich Court’s ruling grants to German copyright licensors unprecedented powers to segment markets and control distribution channels in ways that had heretofore been prohibited by a robust exhaustion rule with a specially calibrated exception.<sup>777</sup> While some may argue that greater contractual freedom is desirable (e.g. in that it provides the basis for innovative exploitation models like FOSS), the corollary is that the public are effectively deprived of an important copyright limitation that is designed to protect their interests. Recipients of copyright works must now be more vigilant in reading standardised agreements to fully ascertain which forms of redistribution are contractually permitted.<sup>778</sup> This in turn burdens those recipients with additional search and information costs where before they could rely on a mandatory exhaustion rule.<sup>779</sup> One possible consequence of this added informational burden is that

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<sup>776</sup> *Ibid*

<sup>777</sup> Several commentators note the unprecedented nature of the decision; e.g., see *Westkamp* (n 461) 24 (‘The *condition subsequens* formula therefore effects – if unreservedly applied to commercial software licences – an unprecedented power to control the use of software.’); see also, *Hoeren* (n 515)

<sup>778</sup> Alternatively, courts may need to step in and more aggressively police the terms of standardised agreements albeit under the normative framework of contract law.

<sup>779</sup> Mezzanotte discusses the role that the ‘distinctive market’ test plays as a form of *numerus clausus* for secondary intellectual property rights, acting to limit search and information costs, see *Mezzanotte* (n 311) 37-39. Thus, the circumvention of the distinctive market test inevitably raises questions over

third-parties may choose not to purchase or acquire copies of works. Indeed, if information costs become too burdensome, this could lead to the under-utilisation of copyright works, an outcome that is counter to the distributive functions of copyright.<sup>780</sup>

### [5.1.1.C] Undermining the Lawful User Exception

The Munich Court's construction of the GPL also raises questions over the position of the so-called 'lawful user' under Section 69d(1) of the UrhG. As noted in Chapter Two, Section 69d plays a crucial role in relation to software by ensuring that those who are deemed 'lawful users' of a computer program are not required to seek authorisation from the right-holder to use the program in accordance with its intended purpose.<sup>781</sup> Much like the principle of exhaustion, the lawful acquirer exception limits the powers of right-holders in order to protect the interests of users and competitors.<sup>782</sup> Indeed, the exception is designed to counter-balance the extensive powers conferred to authors of software, namely, the ability to exclusively control reproductions that are indispensable to the mere use of a work (e.g. running the program).<sup>783</sup> As such, the exception forms part of the architecture

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increased information costs for third parties. See also, Puig, *Copyright Exhaustion Rationales and Used Software: A Law and Economics Approach to Oracle v. UsedSoft* (2013) 4 JIPITEC 3, 159

<sup>780</sup> On the link between information costs and copyright under-utilisation from a common law perspective, see *Ard* (n 205) 333 ff.; Mulligan, *A Numerus Clausus Principle for Intellectual Property* (2012) 80 Tenn. L. Rev. 235, 264-5

<sup>781</sup> See Section 2.3.2.B(ii).

<sup>782</sup> *Wandtke/Bullinger* (n 538) §69d paras 1-4; Dreier, *Verletzung urheberrechtlich geschützter Software nach der Umsetzung der EG-Richtlinie* (1993) GRUR 781, 785; Lehmann, *Das Urhebervertragsrecht der Softwareüberlassung* in *Beier et al* (n 704) 543 ff.

<sup>783</sup> Section 69c(1) UrhG; see also, Article 4(1)(a) of Directive 2009/24/EC (Software Directive). A similar position is reached under US law, see *MAI Systems Corp. v. Peak Computer* (n 298)

of German copyright contract law as it relates to subject matter with certain special characteristics (i.e. software).<sup>784</sup>

Before proceeding, it is worth noting a few things about Section 69d(1) of the UrhG. The provision was enacted in 1993 to implement Germany's obligations under the EU Software Directive.<sup>785</sup> It is an almost verbatim implementation of Article 5(1) of the Directive, save for one notable difference. Whereas Art. 5(1) uses the term 'lawful acquirer', the German legislature deliberately adopted the term 'person authorised to use' or 'lawful user' for Section 69d(1).<sup>786</sup> This is intended to reflect the fact that the exception not only applies to those who have lawfully 'acquired' a tangible copy (e.g. purchasers, lessees or renters of copies), but also to those who might otherwise be considered to have lawful 'use' of a work (e.g. a licensee, employee, contractor, or customer).<sup>787</sup> Indeed, while one of the main functions of Section 69d(1) is to complement exhaustion rule under Section 69d(3) by ensuring that recipients of copies are entitled to use them in accordance with the

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<sup>784</sup> 'The protection it affords alleviates the initial conflict that arose out of the specific characteristics of software as subject-matter protected by copyright, rather than some form of *sui generis* right.' Westkamp (n 461) 54; see also, Westkamp, *Temporary Copying and Private Communications – the Creeping Evolution of Use and Access in European Copyright Law* (2004) Geo. Wash. Int'l. LR 1057

<sup>785</sup> *Second Act amending the Copyright Act* (9.6.1993) BGBl. I, 910. See generally, Dreier (n 782); see also, Lehmann, *Der neue europäische Rechtsschutz von Computerprogrammen* (1991) NJW 2112

<sup>786</sup> i.e. 'Zur Verwendung berechtigte Personen', see Spindler in Schrickler & Loewenheim, *Urheberrecht* (5th ed., C.H. Beck, 2017) §69d para 4

<sup>787</sup> There has long been debate in the scholarship as to whether the 'lawful user' must obtain their 'lawful' status through a contractual grant of use rights. A minority opinion asserts that a lawful user must be granted use rights from the right-holder or from someone authorised to grant such rights (e.g. sub-licensor). Under this view, if a downstream party cannot establish a direct contractual grant of rights either from the right-holder or a sub-licensor, then they do not enjoy the status of 'lawful user', even if they have acquired the physical data carrier in good faith pursuant to a first sale. See, Wandtke/Bullinger (n 538) §69d para 25; Moritz, *Vervielfältigungsstück eines Programms und seine berechtigte Verwendung § 69d UrhG und die neueste BGH-Rechtsprechung* (2001) MMR 94. However, the majority view maintains that there does not need to be a grant of use rights and that the 'lawful user' status may arise by operation of law, e.g. with the lawful acquisition of a copy pursuant to a first sale, see Wandtke/Bullinger (n 538) §69d para 26.

legitimate expectations of an owner, it is not exclusively limited to this function.<sup>788</sup> The provision is designed to cover lawful users in a broad range of possible situations including, for example, volume licensing, network licensing, application service provision (e.g. cloud computing) and outsourcing, to name just a few.<sup>789</sup>

Once it has been established that a party is a ‘lawful user’ under Section 69d(1), two further questions arise: (i) what constitutes ‘use in accordance with the intended purpose’ and (ii) to what extent can ‘special contractual provisions to the contrary’ validly limit that use? Prior to the Munich Court decision in *Welte v Sitecom*, the consensus in German scholarship was that the ‘intended purpose’ is to be ascertained by looking at the initial agreement between the right-holder and the initial licensee, taking into account the nature of the program.<sup>790</sup> For example, if the initial licence agreement explicitly states that the rights are granted for use by a single user, then installing the software on several devices that can be used concurrently will not fall within the exception.<sup>791</sup> The licensee will, however, be entitled rely on the exception to install copies on a second computer should they decide to upgrade to a new computer or operating system.<sup>792</sup> Where the agreement is not explicit as to the ‘intended purpose’, courts will look to a range of factors, ultimately

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<sup>788</sup> The term ‘acquirer’ (*erwerber*) used in Directive 2009/24/EC indicates the role that the provision plays in relation to tangible copies, e.g. see *Westkamp* (n 461) fns.150, 151. However, the provision as implemented in the UrhG is not to be limited to tangible copies, see *Spindler* (n 786) §69d para 4

<sup>789</sup> See, *Wandtke/Bullinger* (n 538) §69d paras 9-22

<sup>790</sup> The ‘intended purpose’ is to be interpreted restrictively. Furthermore, if the initial contract is not explicit as to purpose, the court may take into account the nature and design of the program, see Higher Regional Court of Düsseldorf, No. 20 U 51/96 (27.03.1997) – *Rechtswidrige Dongle-Umgehungsprogramme*

<sup>791</sup> Hoeren & Schumacher, *Verwendungsbeschränkungen im Softwarevertrag* (2000) CR 137

<sup>792</sup> *Ibid* 139

seeking to balance the interests of the lawful user with the author's interest in remuneration.<sup>793</sup>

Finally, it is clear from the wording of Section 69d(1) that a right-holder may contractually limit the lawful user exception, although the provision itself does not give any further details on what type of contractual limitations are valid.<sup>794</sup> It is well-established in German jurisprudence, however, that any 'special contractual provisions' that act to deprive the lawful users of certain 'fixed' or 'mandatory core' of uses are invalid under Section 69d(1).<sup>795</sup> This idea of a 'fixed core' of lawful uses which cannot be overridden by contract is said to have its roots in the recitals of the Software Directive.<sup>796</sup> While the idea was formally acknowledged by the German legislature, the question of which uses would fall within the fixed core uses was ultimately left to the courts. Over time, the German courts developed a body of case law around this question.<sup>797</sup> Prior to the Munich Court decision, it was generally accepted within the literature that the acts of loading, running and storing a program in working memory by a single user were deemed to fall squarely within this fixed core of uses and, as such, could not be excluded by contract.<sup>798</sup>

Thus, having given a brief background to the lawful user exception as it was understood at the time of the Munich Court's decision, we can now turn to consider the

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<sup>793</sup> See, Grützmaker, *Lizenzgestaltung für neue Nutzungsformen im Lichte von § 69d UrhG* (2011) CR 485

<sup>794</sup> N.b. Sections 69d(2) and (3) are mandatory in accordance with Article 8 of Directive 2009/24/EC

<sup>795</sup> Federal Court of Justice, No. I ZR 141/97 (24.02.2000) - *Programmfehlerbeseitigung; Dreier/Schulze* (n 308) §69d para 12; *Wandtke/Bullinger* (n 538) §69d paras 34-40.

<sup>796</sup> See Recital 17 of Directive 91/250/EC

<sup>797</sup> See, *Entwurf eines Zweiten Gesetzes zur Änderung des Urheberrechtsgesetzes* (1993) BT-Dr 12/4022

<sup>798</sup> However, at this time, there remained uncertainty as to more penumbral cases, e.g. duplication procedures, multi-user situations, employee uses, outsourcing, network licensing. See, Grützmaker in *Wandtke and Bullinger, Praxiskommentar zum Urheberrecht* (1<sup>st</sup> ed., C.H. Beck, 2002) §69d 34-40

effect, if any, that the FOSS enforcement case law has had on this key feature of German software licensing law. At first glance, it might seem safe to assume that the decision concerning the GPL would have no effect on the lawful user exception given that the GPL's restrictions are not intended to limit or regulate the mere acts of loading or running the program.<sup>799</sup> However, such an assumption would be misguided.

(i) *The Consequences of Foss Licence Enforcement*

The Munich Court's decision raises an important question regarding the lawful user exception and its application under German law: does the termination of a licence and the subsequent loss of rights deprive a licensee of their status as a 'lawful user'? Certainly, it could be argued that the express termination condition, when breached by a licensee, acts to deprive that licensee of their status as lawful user and their ability to perform simple acts of loading and running the program in accordance with the intended purpose without the requiring authorisation. There is a simple logic to this argument: if lawful user status is said to arise pursuant to a grant of use rights, the reversal of this grant logically entails the loss of lawful user status and loss of the benefit of the exception.<sup>800</sup>

Despite the appealing simplicity of this logic, there are nevertheless further questions that must be considered. First among these is the question of whether an express termination condition (i.e. a mere contractual term) can deprive a licensee of the lawful user status that they had once previously enjoyed. As noted above, it is generally acknowledged in the scholarship and case law that 'special contractual provisions to the

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<sup>799</sup> See Section 3.2.1 above (discussing the graduated nature of the GPL's restrictions).

<sup>800</sup> Where the lawful user status arises, not through a grant of rights, but instead through operation of law (e.g. where the party purchases a second-hand copy subsequent to a lawful first sale), then the question of termination and its effects may be more complicated.

contrary' cannot deprive lawful users of a 'fixed core' of certain uses and will be held invalid if they try to do so.<sup>801</sup> Thus, the question arises as to whether the express termination condition is considered an invalid contractual term as a matter of Section 69d(1). This is not as straightforward as one might assume. Indeed, in dealing with this question, it is possible to draw a distinction between, on the one hand, a contractual term that limits the types of uses that the lawful user can make and, on the other hand, a contractual condition subsequent that acts as a reversionary clause and removes the party's status as lawful user. Whereas the former might attempt to limit or restrict the type of uses that lawful user can enjoy, including those that may fall within the fixed core, the latter is instead trying to set conditions under which the party enjoys the status entitling them to that 'fixed core'.

It is undoubtedly the case that a contractual term limiting uses that fall within the fixed core will be found invalid under Section 69d(1). It is not so clear, however, whether the latter type of contractual restriction will also be found invalid. If we recall from above, it was held by the Munich Court that the Section 4 of the GPL was not a circumvention of Section 31 of the UrhG because the direct licensing provision ensured that downstream rights remained unaffected by the upstream termination.<sup>802</sup> However, it is not clear whether a direct licensing provision would also help to ensure the validity of the termination condition under Section 69d(1). While a direct licensing provision might act to ensure that termination does not affect the rights of downstream parties, this may not be sufficient justification for allowing the termination condition to be valid as a matter of Section 69d(1). Indeed, the lawful user exception is tasked with protecting different interests to those

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<sup>801</sup> See above (n 795)

<sup>802</sup> See *Welte v Sitecom* (n 437)

protected by exhaustion and, as such, the mitigating effects of a direct licensing provision may not be sufficient in the case of the former.<sup>803</sup>

Given all this, it is not entirely clear whether a German court would recognise lawful user status as conditional and subject to reversion. Some scholars have argued that as soon as the lawful user status is established, the ‘fixed core’ of uses will vest in the user and any reversionary clause that seeks to deprive the lawful user of their rights or lawful user status *ex nunc* will be void as a matter of Section 69d(1).<sup>804</sup> However, it is well-established that lawful user status can revert in other situations, e.g. pursuant to fixed-term licence or a software rental agreement. With that said, even if an express termination condition were found to be valid as a matter of Section 69d(1), it would still have to withstand scrutiny under Section 307 BGB provided it formed part of a standard-form contract.<sup>805</sup>

A second question that arises from the Munich Court’s decision relates to the direct licensing provision. By validating this type of contractual clause, right-holders are given the ability to establish direct *inter partes* relationships with each subsequent recipient of the work, thus creating a network of direct contracts. The result is that right-holders are then capable of imposing ‘special contractual provisions to the contrary’ on each recipient where before there would have otherwise been no contractual privity.<sup>806</sup> In this instance,

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<sup>803</sup> The exhaustion principle ensures the free marketability of the work. The direct licensing provision protects this interest by ensuring downstream parties can distribute the work notwithstanding upstream termination. By contrast, the lawful user provision protects an individual user’s ability use with the work as intended. The direct licensing provision does not protect this interest for the individual user.

<sup>804</sup> Lehmann, *Das Urhebervertragsrecht der Softwareüberlassung* in Beier *et al* (n 704) 553 ff.

<sup>805</sup> See Section 5.1.1.D(ii) below.

<sup>806</sup> This problem arises generally for viral contracts, e.g. where a click-wrap EULA is presented to each recipient of the copy of the work on installation. See, *Radin* (n 284). It is important to also note that the BGH have recently held that the contractual provisions in the initial licence contract will also limit the lawful uses the subsequent purchasers of ‘used’ software, even where there is no contractual

the question then focuses on whether the use restrictions in the contract are deemed to be invalid under Section 69d(1) for depriving lawful users of their ‘fixed core’ of uses and/or whether they are invalid as a matter of Section 307 BGB.

Overall, the Munich Court’s decision raises some important questions concerning the lawful user exception and its interaction with certain features found in the GPL templates. While it is not entirely clear whether these features could be used to circumvent or limit the lawful user exception in the ways discussed, it is clear that – if found to be valid – they could cause significant problems in the commercial or consumer licensing context. That the Munich Court did not consider the potential impact of their decision in this regard highlights the myopic focus of the Court and the inherent danger in seeking to validate the FOSS licensing model with little concern for how it might affect the broader licensing framework.

#### **[5.1.1.D] Mitigating Factors**

Despite all this, there remain certain features of the German legal framework that may act to restore some balance and mitigate the more egregious forms of abuse made possible by the validation and enforcement of FOSS licence templates. This section will briefly consider some of these mitigating factors.

##### **(i) Further Limitations in the UrhG**

It is worth briefly noting some of the additional limitations and exceptions found in the UrhG that have not already been discussed. These exceptions warrant only a brief mention

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privity. See, Federal Court of Justice, No. I ZR 129/08 (17.07.2013) – *UsedSoft II*; Federal Court of Justice, No. I ZR 8/13 (11.12.2014) – *UsedSoft III*.

given that they do not appear to play a direct role in relation to the issues raised by FOSS licence enforcement.<sup>807</sup> With that said, they may nevertheless play an important limiting role in limiting the powers of right-holders in software more generally and as such may mitigate some of the concerns raised above.<sup>808</sup> In addition to the lawful user exception, the German Copyright Act recognises special exceptions in relation to software under Sections 69d(2), 69d(3) and 69g of the UrhG. These provisions implement the exceptions set out in the Software Directive which allow authorised persons to (i) create a back-up copy of the program, (ii) observe, study and test the functioning of the program in order to determine the underlying ideas and (iii) decompile the program to obtain information necessary for the purposes of interoperability respectively.<sup>809</sup> To the extent that an authorised person's use of a computer program falls within one of these exceptions, then they may rely on the exception to perform restricted acts notwithstanding the lack of authorisation or contractual restrictions to the contrary.<sup>810</sup> Thus, the provisions may – in certain circumstances – play a limiting role in relation to the powers of licensors. However, it remains to be seen whether the condition subsequent feature could be used in a similar manner to deprive licensees of their status as someone who may benefit from these exceptions.<sup>811</sup>

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<sup>807</sup> These exceptions do not play a direct role in relation to FOSS because FOSS licences already provide the permissions that would otherwise arise under these limitations and exceptions (e.g. ability to view the source code). See, e.g. *Dreier/Schulze* (n 308) §69e para 7

<sup>808</sup> For example, where a proprietary software licensor seeks to restrict a licensee's ability to make a back-up copy or decompile the software for the purposes of interoperability,

<sup>809</sup> See, Articles 5(2), 5(3) and 6 of Directive 2009/29/EC respectively.

<sup>810</sup> See, Article 8 Directive 2009/29/EC ('Any contractual provisions contrary to Article 6 or to the exceptions provided for in Article 5(2) and (3) shall be null and void.'). It is interesting to note that these limitations are completely non-derogable unlike Article 5(1).

<sup>811</sup> See argument in relation to the conditional nature of the 'lawful user' status, discussed above in Section 5.1.1.C.

## (ii) Contractual Limitations

A recurring theme in this chapter has been that of contract prevailing over copyright law. Indeed, it has already been shown how the Munich Court's decision paves the way for German copyright licensors to contractually tailor remedies for breach *ex ante*, contractually limit the effects of exhaustion, and potentially undermine the lawful user exception through contract. If we step back and look again at the Munich Court's reasoning, we see that it is the validation of the direct licensing provision (e.g. Section 6 of the GPL) that is primarily responsible for facilitating this subtle shift away from mandatory copyright norms towards greater freedom of contract. This is because the direct licensing provision acts to render a complex network of relations into a series of discrete bilateral relationships that are in no way dependent on – or causally linked to – the validity or substance of others.<sup>812</sup> By doing this, the provision offers normative justification for viewing the terms of each relationship in this network solely through the lens of contract law (or so it is argued).<sup>813</sup> Certainly, this appears to be the line of reasoning adopted by the Munich Court when it allowed the contractual terms of the GPL to effectively circumvent the substantive limitations embodied in Section 31 of the UrhG.<sup>814</sup>

By doing this, the Munich Court effectively shifted the burden of regulatory oversight from copyright law to contract. For example, whereas before it was the case that a term had to satisfy the 'distinctive market' test for it to give rise to copyright liability on breach, it must now only be shown that the restriction does not 'unreasonably disadvantage'

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<sup>812</sup> See above, *Fig 1*.

<sup>813</sup> See, *Westkamp* (n 461) 38-41

<sup>814</sup> *Welte v Sitecom* (n 437)

the licensee when found in a licence with an express termination condition and direct licensing provision.<sup>815</sup> This in turn raises an important question: can the German law of contract provide a sufficiently robust framework for mitigating abuses and ensuring balance where copyright law has been overridden?

There is certainly evidence to support the claim that German contract law may provide a sufficient level of oversight vis-a-vis licence restrictions. German courts have routinely struck down licence restrictions for being invalid under the BGB's rules on standard business conditions.<sup>816</sup> Typically, German courts find that absolute restrictions on redistribution are invalid under Section 307 BGB, not only because the restrictions deviate from the position maintained by statutory law (i.e. conflict with the essential principles of exhaustion),<sup>817</sup> but because the restrictions may also constitute a 'surprising clause' from the viewpoint of a purchaser. i.e. because they conflict with their legitimate expectations as owner of the copy.<sup>818</sup> However, with that said, the German courts have nevertheless upheld restrictions on redistribution where there are considerable commercial reasons to do so and/or where the restrictions do not unreasonably conflict with the legitimate expectations of the other party.<sup>819</sup> Given all of this, it appears that the most egregious attempts at contractually circumventing exhaustion and restricting redistribution will

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<sup>815</sup> This only applies where the terms form part of a standardised contract. See, Section 305 ff. BGB

<sup>816</sup> E.g. on invalid terms restricting distribution, see Federal Court of Justice, No. VIII ZR 314/86 (04.11.1987); Higher Regional Court of Nuremberg, No. 3 U 1342/88 (20.06.1989); Higher Regional Court of Frankfurt, No. 11 U 4/96 (25.06.1996); Higher Regional Court of Bremen, No. 2 U 76/96 (13.02.1997); Higher Regional Court of Hamburg, No. 5 W 35/13 (30.04.2013). For general commentary on the case law, see *Wandtke/Bullinger* (n 538) §69c para 38. On invalid terms restricting use, see, e.g. Higher Regional Court of Frankfurt, No. 6 U 18/93 (10.03.1994)

<sup>817</sup> Section 307(2) BGB

<sup>818</sup> Section 305c BGB

<sup>819</sup> See, Higher Regional Court of Düsseldorf, No. 20 U 76/97 (3.3.1998) – *Weiterverkauf von Testversionen*; *Wandtke/Bullinger* (n 538) §69c para 39

typically be met with reproach by German courts applying the rules limiting the parties' freedom of contract.

As for attempts to contractually tailor claims *ex ante*, it is conceivable that a German court might find that the restrictions linking to the express termination condition – i.e. those that trigger termination and give rise to copyright liability *ex nunc* – are invalid as a matter of Section 307 BGB. It could potentially be argued that such restrictions, when linked to the termination condition, are unduly disadvantageous to licensees because they have the effect of deviating from the position established by statute (i.e. Section 31 UrhG) and are surprising from the perspective of a licensee.<sup>820</sup> Certainly, where the restrictions are trivial or idiosyncratic in nature, but nevertheless terminate the licence, there is a strong argument that they may be 'surprising' to the licensee. Given the relative novelty of the condition subsequent structure, however, there is little case law to illustrate how courts might deal with the validity of these contractual restrictions that link to and trigger the express termination condition.<sup>821</sup>

The notable danger in shifting this burden of regulatory oversight from copyright law to contract law is that it means German courts must assess the licence restrictions through a different normative lens.<sup>822</sup> Whereas German copyright law is built around a normative framework that seeks to carefully balance the interests of authors, exploiters and users of copyright,<sup>823</sup> contractual norms aim to provide procedural and substantive

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<sup>820</sup> Sections 307 and 305c BGB respectively.

<sup>821</sup> See, *Westkamp* (n461) 32

<sup>822</sup> *Ibid* 40-41

<sup>823</sup> The legal framework embodied in the UrhG 1965 was carefully calibrated to ensure there is a balance between the various basic rights of individuals as they relate to authorial works, See, Dietz, *Letter from the Federal Republic of Germany: Part 1* (April, 1974) *Copyright* No.5, 93

oversight to an obligational relationship between two parties built on the principle of ‘good faith’.<sup>824</sup> In many cases, this requires the court to protect the position of the weaker party from an imbalance in the bargaining position of each.<sup>825</sup> Thus, when it comes to assessing the validity of a licence restriction under contract law, courts will primarily (although not exclusively) focus on whether the parties have made a free and informed decision to assume obligations *inter se* in good faith. Conversely, there will be less focus on the effect that the restrictions will have as a matter of broader public policy. In the licensing context, this could mean that courts may validate restrictions as a matter of contract law without considering the broader implications for copyright policy.<sup>826</sup>

Thus, while German contract law clearly provides a robust framework for regulating licence terms that may be ‘unreasonable’ or ‘contrary to good faith’, the subtle shift away from copyright law may nevertheless result in weakening the role of copyright norms in the context of licensing.<sup>827</sup> Whether this subtle shift is a desirable outcome or not is open to debate. On the one hand, greater contractual freedom between the parties may allow for innovative licensing practices to flourish, e.g. beneficial licensing practices like FOSS.<sup>828</sup> On the other hand, it may have undesirable consequences; e.g. increased information costs as parties must parse contractual terms instead of relying on default rules.

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<sup>824</sup> On the norms shaping contractual regulation in the BGB, see generally, Zimmerman, *The New German Law of Obligations: Historical and Comparative Perspectives* (OUP, 2005) 165-178

<sup>825</sup> *Ibid*

<sup>826</sup> Westkamp (n 461) 40

<sup>827</sup> See generally, Ohly, *Gesetzliche Schranken oder individueller Vertrag?* In Dreier and Hilty (ed.), *Vom Magnettonband zu Social Media. Festschrift 50 Jahre Urheberrechtsgesetz (UrhG)* (Beck, Munich, 2015)

<sup>828</sup> Allowing parties greater contractual freedom can encourage socially beneficial licence experimentation. This will be discussed further in Chapter Seven.

### (iii) Exogenous Bodies of Law

Finally, it is worth noting that while the Munich Court's decision has had notable effects on the broader framework of copyright contract law, the validation of FOSS licence templates does not appear to alter in any way the application of rules and principles exogenous to German copyright contract law. Indeed, a licence embodying similar features to those found in the GPL will remain subject to, for example, the rules of German competition law.<sup>829</sup> Accordingly, where a proprietary licensor employs a termination condition and/or direct licensing provision to anti-competitive effect (or any effect proscribed by such exogenous rules), then it may nevertheless be invalidated on these grounds.<sup>830</sup> While these exogenous bodies of law are outside the ambit of this thesis, they can nevertheless play an important role in mitigating some of the more egregious forms of abuse made possible by the validation of FOSS licence templates, e.g. tying the validity of a licence agreement to the purchase of ancillary products in an anti-competitive manner through a condition subsequent.

#### [5.1.2] Concluding Remarks

In summary, the enforcement of FOSS licence templates in Germany has been shown to have broader unintended consequences for the licensing framework. The German courts'

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<sup>829</sup> Additionally, the civilian concept of "abuse of rights" may play a mitigating role in relation to the more egregious forms copyright abuse, e.g. abusive enforcement of copyright. The concept of abuse of rights finds expression both in EU law and national German law. In certain respects, it is similar to copyright misuse doctrine in the United States. See, e.g. *Sganga and Scalzini, From Abuse of Right to European Copyright Misuse: A New Doctrine for EU Copyright Law* (2017) IIC 405; Metzger, *Abuse of Law in EU Private Law: A (Re-)Construction from Fragments* in De la Viera and Vogenauer (eds.), *Prohibition of Abuse of Law: A New General Principle of EU Law?* (Hart Publishing, 2011) Ch. 16

<sup>830</sup> For a brief overview of German competition law and its application to FOSS licensing models, see Peukert and König in Metzger (n 10)

failure to limit their findings vis-à-vis FOSS licence enforcement has meant that similar drafting techniques and features can be adopted by proprietary licensors in ways that may destabilise or undermine the balance that German copyright contract law had previously maintained. While there are various factors that may mitigate these concerns, it remains the case that the delicate architecture of the system has been disturbed by embedding a subversive system within, creating an imbalance and uncertainty which has the potential to undermine German copyright policy.

## **[5.2] United States**

Much like in the German case law, there is nothing in the US case law to suggest that the legal findings with regards to FOSS licence enforcement were intended to be limited exclusively to the FOSS context. While the CAFC did make several statements regarding the unique nature of FOSS and the socially-desirable benefits that the alternative licensing model provides, the judgment did not go so far as to state that the legal findings vis-à-vis FOSS licence templates were of a *sui generis* nature.<sup>831</sup> As a result, the question arises as to whether the validation and enforcement of FOSS licence features by the US courts has had any broader consequences for the US copyright licensing framework. As will be discussed, the primary concern in this respect is that the decisions pave the way for commercial and consumer licensors to contractually designate any licence term as a ‘condition’; an outcome that has the potential to raises a host of concerns that will be discussed below.

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<sup>831</sup> See Section 4.2.2.B above.

### [5.2.1] Embracing and Extending Laissez-Faire Ideology

The previous section highlighted how the German courts' broad-brush approach to validating the features of the GPL had the effect of disturbing the 'delicate architecture' of the German copyright contract law.<sup>832</sup> By upholding those features, the German courts effectively allowed the parties to circumvent certain mandatory features of the UrhG, resulting in a subtle shift towards a more liberal regulatory framework. The present section, however, tells a slightly different story; but ultimately one that echoes the same fundamental concerns that arise as a result of trying to embed a subversive system within a system. This is because the US licensing framework, unlike its German counterpart, has traditionally been very liberal in its approach to regulating copyright licences, affording parties a significant degree of contractual freedom to shape the terms their relationship.<sup>833</sup> While Sections 107 through to 122 of the US Copyright Act embody public rights created through the operation of law that are intended to act as a counter-balance to the powers of right-holders,<sup>834</sup> US courts have generally been willing to allow parties to contract around these statutory provisions.<sup>835</sup> For this reason, the interpretation and enforcement of FOSS licence templates under US law does not represent a significant derogation from established

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<sup>832</sup> See Section 5.1.1 above.

<sup>833</sup> See, Nimmer, *Breaking Barriers: The Relation Between Contract and Intellectual Property Law* (1998) 13 Berkley Tech. L.J. 827; Madison, *Legal-Ware: Contract and Copyright in the Digital Age* (1998) 67 Fordham L. Rev. 1025; Elkin-Koren, *Copyright Policy and the Limits of Freedom of Contract* (1997) 12 Berkeley Tech. L.J. 93; Minassian, *The Death of Copyright: Enforceability of Shrink-wrap Licensing Agreements* (1998) 45 UCLA L. Rev. 569; Moffat, *Super-Copyright: Contracts, Pre-emption, and the Structure of Copyright Policy-making* (2007) 41 U.C. Davis. L. Rev. 45

<sup>834</sup> See, 17 U.S.C. §107-112

<sup>835</sup> See, above (n 833); see also, Winston, *Why Sell What You Can License: Contracting Around Statutory Protection of Intellectual Property* (2006) 14 Geo. Mason L. Rev. 93; Carver (n 55)

law, but instead a willingness to embrace and further extend the laissez-fair ideology that underpins the dominant strands of US licensing jurisprudence.

However, the fact that the US courts did not need to derogate from existing copyright licensing doctrine to enforce FOSS licences does not mean that the broader consequences of the decision are any less problematic.<sup>836</sup> Indeed, while the ruling in *Jacobsen v Katzer* might not have disturbed the ‘delicate architecture’ of US copyright licensing jurisprudence by requiring the same kind of legal gymnastics as German courts, the CAFC’s decision to allow FOSS licensors the freedom to contractually designate any term as a ‘condition’ nevertheless raises concerns. As will be discussed, by embracing and extending laissez-faire ideology in this respect, the US courts have effectively paved the way for proprietary licensors in adopting similar drafting techniques to (i) seek unduly onerous remedies for the breach of licence terms, (ii) to engage in certain forms of ‘substantive overreach’, and (iii) to bind third-parties – all of which have the potential to undermine the objectives of US copyright law in various ways.

#### **[5.2.1.A] Freedom to Create Licence Conditions**

As noted, the CAFC held in *Jacobsen* that the relevant restrictions of the Artistic Licence were conditions and not mere contractual covenants.<sup>837</sup> The CAFC based this finding on the fact that the drafters of the Artistic Licence had used the words ‘provided that’ to express their intention to conditionally limit the scope of the rights granted to the licensee.<sup>838</sup> Accordingly, whereas German courts held that a restriction must satisfy the

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<sup>836</sup> The CAFC was arguably more liberal in its approach to the question of consideration and may be said to have derogated from existing contract law in that respect.

<sup>837</sup> *Jacobsen v Katzer* (n 638) 1381

<sup>838</sup> *Ibid*

distinctive market test for it to act as scope limitation (a test which the GPL's restrictions failed), the US courts only asked whether the parties had manifested the relevant intention in accordance with the applicable state contract law.<sup>839</sup> Thus, the CAFC's ruling reaffirmed that US law does not recognise any substantive limitations on the creation of licence conditions, but instead defers exclusively to the parties intentions, as interpreted through state contract law, when drawing the boundaries between copyright and contract in any given licence agreement.<sup>840</sup>

Of course, as will be discussed below, such contractual freedom remains subject to the procedural and substantive rules of the applicable state law.<sup>841</sup> In addition, there are rules and doctrine from related bodies of law that may act to limit parties' freedom in this respect.<sup>842</sup> Nevertheless, it remains that the freedom to create and enforce conditions recognised by the CAFC in *Jacobsen* is significantly greater than that afforded to German licensors. Indeed, as the CAFC ruling seems to suggest, a licensor can render any restriction a 'condition' under US law simply by using careful drafting and the right terminology.<sup>843</sup>

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<sup>839</sup> *Ibid* (applying Californian state contract law in the case of *Jacobsen v Katzer*)

<sup>840</sup> The CAFC's decision in *Jacobsen v Katzer* does not signal a departure from existing approach of US courts in this regard. See, for example, *S.o.S. Inc. v Payday, Inc* (n 306); *Graham v Jones* (n 306); See also, *Nimmer* (n 199) 569 ff.

<sup>841</sup> See Section 5.2.1.B(ii) below.

<sup>842</sup> See Section 5.2.1.B(iii) below.

<sup>843</sup> See, *Gomulkiewicz* (n 196) 125 ('[T]he [CAFC] did not address the extent to which the parties, by careful drafting, can dictate or influence the categorization [of terms as conditions or covenants].') As will be discussed in the following chapter, there have been recent US legal developments that suggest parties may no longer enjoy the same degree of contractual freedom in this regard.

(i) *Onerous Remedies*

By allowing parties the freedom to designate any licence term as a condition, US courts essentially allow for the shaping *ex ante* of claims that arise upon breach. It follows that licence drafters can – to a certain extent – shape *ex ante* the remedies that will be granted by courts in response to a licence violation.<sup>844</sup> While this freedom to shape the claims *ex ante* proves integral to ensuring the enforcement objectives of FOSS licence templates are realised, it is a freedom that can also be exercised to achieve outcomes that may not be as desirable as a matter of policy. One of the biggest concerns in this regard is that of proprietary licensors in the commercial or consumer context trying to shape the claims *ex ante* to obtain unduly onerous remedies for licence violations.

As discussed in Chapter Two, copyright law and contract law establish rather different remedial frameworks for providing redress to licence violations.<sup>845</sup> Contractual remedies are primarily concerned with compensating the wronged party's loss, whereas copyright law provides a range of remedies that not only seek to compensate loss and recover unlawful gains, but also seek to uphold the integrity of the right by supporting the ability to exclude and deter.<sup>846</sup> Indeed, unlike most other jurisdictions, US copyright law recognises the remedy of statutory damages in lieu of actual damages as part of an effort

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<sup>844</sup> By designating terms as 'conditions', the licensor can ensure that infringement claims arise on breach. As has been shown, however, this does not mean that the desired copyright remedies necessarily follow.

<sup>845</sup> See Section 2.3.1 above.

<sup>846</sup> 'While contract damages are ordinarily directed toward protecting the injured party's expectation interest [...] in intellectual property damages reflect a different base and flow toward a different purpose. They are remedies for intrusion on a property interest and, thus, tend to measure the loss in value of that interest or the wrongful gains obtained by the party engaging in the intrusion. For example, Section 504 of the Copyright Act provides for recovery of 1) the copyright owner's actual damages *and* any additional profits of the infringer attributable to the infringement, or 2) statutory damages in appropriate cases.' *Nimmer* (n 199) 574

to deter infringement.<sup>847</sup> This can be a particularly severe remedy; one that has a punitive element to it.<sup>848</sup>

Given the availability of such powerful exclusionary and supra-compensatory remedies, there is understandably concern that proprietary licensors may create licences in which the restrictions – even the most trivial – are drafted as ‘conditions’ with purpose of obtaining some perceived commercial advantage or creating a significant deterrent. The concern is particularly pronounced where the licence in question is a standardised end-user licence agreement (EULA) for which there has been no prior negotiation or input from the end-user vis-à-vis the drafting of terms.<sup>849</sup> Take, for example, the following hypothetical scenario:

A commercial developer creates a computer game and distributes it online. The click-wrap EULA grants to end-users the right to download and use the game (i.e. make copies in RAM) ‘subject to the condition that’, *inter alia*, the users do not skip the advertisements that play in the opening and closing credits of the game.<sup>850</sup>

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<sup>847</sup> 17 U.S.C. § 504; Under this provision, a copyright claimant may seek an award of statutory damages between \$750 and \$30,000 per infringed work, or even up to \$150,000 per infringed work if the infringement is wilful. There is currently debate within US scholarship as to whether statutory damages should be reformed. For further discussion on statutory damages, see Samuelson, Hill & Wheatland, *Statutory Damages: A Rarity in Copyright Laws Internationally, But for How Long?* (2013) 60 J. Copyright Soc’y U.S.A.; Samuelson and Wheatland, *Copyright Statutory Damages: A Remedy in Need of Reform* (2009) 51 WM. & Mary L. Rev. 439.

<sup>848</sup> See, e.g., *On Davis v. Gap, Inc.*, 246 F.3d 152, (2d Cir. 2001) 172 (‘The purpose of punitive damages [...] is generally achieved under the Copyright Act through the provisions of 17 U.S.C. §504(c)(2), which allow increases to an award of statutory damages in cases of wilful infringement.’)

<sup>849</sup> Ard warns of this disparity between ‘disproportionately large statutory remedies’ and ‘adequacy of notice’ that is particularly concerning in the context of consumer licensing; see generally, *Ard* (n 205)

<sup>850</sup> This hypothetical example is taken from Ard’s article. *Ibid* 323

In this instance, if an individual user, having downloaded the game and accepted the EULA, skipped the last ten seconds of the advertisement during the open credits of the game, then they would have breached a condition of the licence and committed an infringement through continued viewing. As a result, the end-user could potentially face statutory damages of up to \$150,000 (minimum \$750), not to mention a possible injunction to prohibit further use.<sup>851</sup> When we consider the nature of the breach in relation to the potential remedy, it becomes clear that the two are by no means commensurate. Indeed, the possible range of remedies available to the licensor in this instance appear to be unduly onerous on the end-user.

In response, it might be argued that the end-user is always capable of reading the terms of the EULA and that, as such, they are free to decide whether they wish to assume the risk of facing such onerous remedies on breach.<sup>852</sup> There are, however, a few problems with this line of reasoning. First, empirical research indicates that end-users rarely read the terms of an EULA owing to their length and complexity.<sup>853</sup> Accordingly, the notion that end-users make the fully-informed decision to agree to such licence conditions does not bear out in practice. Second, there is the distinct possibility that when presented with a lengthy agreement that may contain trivial or idiosyncratic licence ‘conditions’, the more

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<sup>851</sup> 17 U.S.C. § 504

<sup>852</sup> US contract law imposes a ‘duty to read’ which means that failure to read the contract is not a defence to its enforcement, see *Restatement (Second) Contracts* §23 Comment e (1981). It has also been argued by some US contract scholars that not only are consumers capable of reading EULAs and opting to accept or reject the terms, but furthermore, that if consumers don’t like certain terms, then mass-market forces will push back against those terms. In this respect, reputational and competition-based concerns can act as restraints on undesirable provisions. See, e.g., Easterbrook, *Contract and Copyright* (2005) 42 Hous. L. Rev. 953; see also, Bebchuck & Posner, *One-Sided Contracts in Competitive Consumer Markets* (2006) 104 Mich. L. Rev. 82

<sup>853</sup> Ayres & Schwartz, *The No-Reading Problem in Consumer Contract Law* (2014) 66 Stan. L. Rev. 545, 533; Bakos, Marotta-Wurgler & Trossen, *Does Anyone Read the Fine Print? Consumer Attention to Standard-Form Contracts* (2014) 43 J. Legal Stud. 1; Phillips, *The Software License Unveiled: How Legislation by License Controls Software Access* (OUP, 2009) 76

rational and risk-averse consumer may simply opt to not use the work, saving themselves the significant time and effort of reading terms for what is a relatively low-value transaction.<sup>854</sup>

This highlights the more systemic danger posed by an unfettered freedom to designate terms as conditions; namely, that it heightens the risks associated with unknown terms, thus increasing information costs and discouraging users from using and engaging with works. While some scholars have suggested that such freedom may provide the preconditions for a competitive marketplace for licence terms,<sup>855</sup> others have argued that it may simply redirect consumers towards unauthorised sources (i.e. piracy) or causes them to forgo use of the work entirely.<sup>856</sup> Thus, there is a concern that extensive freedom to create licence conditions may – if unchecked – lead to the underutilization and normative delegitimization of copyright; an outcome that is manifestly contrary to the objectives of US copyright law.<sup>857</sup>

Accordingly, in giving effect to the specific enforcement objectives of FOSS licence templates, the CAFC's decision also empowers proprietary licensors to seek more comprehensive and compelling remedies under copyright law, even for the most trivial

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<sup>854</sup> These concerns over the relative information costs of reading complex EULAs have been discussed by several US scholars, see, *Ard* (n 205) 328-330; *Robinson* (n 284) 1486; Mulligan, *Personal Property Servitudes on the Internet of Things* (2016) 50 *Georgia L. Rev.* 1121; 1136 ff.

<sup>855</sup> See above (n 852)

<sup>856</sup> *Ard* (n 205) 330-331 (With that said, *Ard* ultimately notes that while '[t]he rational, risk-averse consumer might anticipate the potential for liability and take pains to avoid overreaching licenses [...] behavioural accounts of consumer decision-making suggest that most users are likely to simply accept the terms, albeit with flawed understandings of their agreement'. He further notes that 'the complexity of these agreements – lengthy and dense as they are – raises the prospect that even a user who read the license would simply be ignorant that breach could give rise to copyright damages.')

<sup>857</sup> On the concerns of normative delegitimization, see, *Ard* (n 205) 332-334; Storch, *Copyright Vigilantism* (2013) 16 *Stan. Tech. & L. Rev.* 453, 476; Tyler, *Compliance with Intellectual Property Laws: A Psychological Perspective* (1997) 29 *N.Y.U. J. INT'L L. & POL'Y* 219, 229-30; Litman, *Real Copyright Reform* (2010) 96 *IOWA L. REV.* 1, 15-18

breach. This not only raises concerns over the proportionality of the remedy as between the individual parties to the licence, but it also raises more general concerns for copyright law as a system encouraging the creation and dissemination of works. While there are, of course, steps that US courts could take to limit these concerns (e.g. imposing more rigorous standards of notice, reading in substantive limitations, or exercising greater discretion at the remedial stage), the CAFC in *Jacobsen* did not appear to consider these in their ruling.<sup>858</sup> With that said, the District Court did subsequently exercise discretion in deciding not to grant *Jacobsen* a preliminary injunction.<sup>859</sup> As will be discussed in the following chapter, while the shift towards a more discretionary approach to remedies mitigates some of the concerns just discussed, it also threatens to undermine FOSS licensing model. Indeed, one of the main dangers of building a ‘system within a system’ is that the subversion becomes hostage to a series of normative commitments that are counter to the subversive objectives it pursues.

(ii) *Substantive Overreach*

Another problem of allowing parties to freely create licence conditions is that it enables licensors to engage in limited forms of substantive overreach. As will be shown, this problem is closely related to the previous one; indeed, the two can be viewed as two sides of the same coin.<sup>860</sup> Before proceeding, however, it is necessary to clarify what exactly is meant by ‘substantive overreach’ in this context as it is a term that is used quite liberally

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<sup>858</sup> For further discussion on these, see, *Ard* (n 205) Part III, IV and V

<sup>859</sup> *Jacobsen v Katzer* (n 657)

<sup>860</sup> Shaping the claims *ex ante* so that copyright liability can arise on the breach is – as will be shown below – a form of substantive overreach to the extent that the claims would have otherwise been contractual in nature.

in the licensing literature. A non-exhaustive review of the US scholarship reveals that there are three broad categories of licensing activity that may fall under the general heading of substantive overreach.<sup>861</sup> These include the following: (i) attempts to create copyright-like protection through contract law where it would not otherwise exist;<sup>862</sup> (ii) attempts to override statutory copyright provisions through contract law;<sup>863</sup> and (iii) attempts to leverage copyright to affect behaviour that is unrelated to copyright.<sup>864</sup> What unifies these categories is that in each the licensor is trying to claim powers beyond the recognised boundaries of copyright.

The central assertion here is that the CAFC's ruling in *Jacobsen* appears to enable only limited forms of substantive overreach. Indeed, the ruling does not touch upon the first or second category in any material way, but instead raises concerns primarily over the third category.<sup>865</sup> To understand how this is the case and why there are such concerns, we

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<sup>861</sup> These are not intended to serve as rigorous analytical categories. Other authors have categorised forms of overreach and abuse in different ways; see, e.g. Cross and Yu, *Competition Law and Copyright Misuse* (2008) 56 Drake L Rev 427, 434-438. (identifying four categories of abusive and overreaching behaviour); Twigg, *Copyright Misuse: Protecting Copyright in Canada from Overreach and Abuse* (2012) 21 Dalhousie J. L. Stud.31, (identifying two broad categories of overreach and abuse in Canadian and US Copyright law). There are further forms of overreach effected through different means (e.g. technological means), although these fall outside the scope of the present discussion on licensing, see, e.g. Wheatley, *Overreaching Technological Means Protection of Copyright: Identifying the Limits of Copyright in Works in Digital Form in the United States and the United Kingdom* (2008) 7 Wash. U. Global Stud. L Rev. 353

<sup>862</sup> E.g. A licence term requiring the licensee to pay royalties beyond the term of copyright; or a term stating that the licensee is not allowed to copy the ideas of facts embodied in the work.

<sup>863</sup> E.g. a licence term stating that the licensee cannot make any 'fair use' reproductions of the work.

<sup>864</sup> E.g. a licence term stating the permission to use the work is conditional on the licensee purchasing another product made by the licensor.

<sup>865</sup> As will be discussed below, conditions do not 'create copyright liability where it would not otherwise exist' as the District Court in *Jacobsen* incorrectly held. Copyright liability arises when the licensee performs restricted acts without rights (having lost them or never acquired them). Similarly, conditions cannot override statutory provisions like fair use. If the claimant brings a copyright claim for breach of a licence 'condition', then the licensee would still be entitled to assert a fair use defence in response to that claim (c.f. a contractual term stipulating that you cannot make fair uses of the work).

need to step back from the legal findings and consider what the ruling held in practical terms.

Viewed in practical terms, the CAFC's decision effectively held that the licensee had infringed copyright by failing to provide attribution. As such, the outcome may seem slightly odd given that (a) US copyright law does not generally recognise an author's moral right of attribution<sup>866</sup> and (b) that copyright is understood to act as an exclusive right and not a right to demand the performance of a positive act.<sup>867</sup> This practical view, however, is a slight mischaracterisation of the actual claim. Instead, the right-holder argued that licensee was liable, not for failing to provide attribution *per se*, but for distributing the work in a manner that was not authorised (i.e. without attribution). Thus, the infringement was deemed to arise from the performance of a restricted act (*distribution*) and not from the failure to perform a positive act (*attribution*).

Nevertheless, as noted in Chapter Four, there is something intuitively disconcerting about this argument.<sup>868</sup> While the claim is undoubtedly triggered by an unauthorised act of distribution, it nevertheless seems to be indirectly aimed at ensuring the positive performance of attribution. In this sense, the licensor seems to be leveraging the exclusive rights of copyright to affect behaviour that falls outside their scope. This intuitive concern has not, however, gone unnoticed by US courts.<sup>869</sup> Indeed, the District Court in *Jacobsen* expressed similar concerns in their judgments.<sup>870</sup>

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<sup>866</sup> Save for the rights implemented by the Visual Artists Rights Act 1990; see, 17 U.S.C. §106A

<sup>867</sup> See *Breakey* (n 228) 147 ff.

<sup>868</sup> See text above at (n 624)

<sup>869</sup> Nor has it gone unnoticed by US scholars. See, e.g., *Newman* (n 120) 1153-1155

<sup>870</sup> *Jacobsen v Katzer* (n 615) 7

The danger of taking the CAFC's decision at face value is that it opens the door for a whole range of behaviour to be leveraged in a similar manner. Indeed, it is possible that a proprietary licensor may leverage copyright to extract from the licensee any conceivable counter-performance on pain of an infringement claim.<sup>871</sup> Take, for example, a software developer that has an EULA with an express condition stating that all end-users must wear a red hat when using the software. Failure to wear a red hat would not be an infringement of copyright *per se*, but failing to wear one while performing an act that does require permission would (i.e. making reproductions of the work in RAM). In this respect, the licensor could be seen to leverage the exclusive rights and remedies of copyright to force users wear red hats while running the program. While this is a relatively innocuous example, one can imagine how proprietary licensors might similarly leverage copyright to affect a range of behaviour unrelated to copyright.<sup>872</sup> Indeed, the real concerns arise where licensors try to leverage copyright to anti-competitive effect or in such a way that it deprives individuals of constitutional or fundamental rights and freedoms (e.g. freedom of expression).

Not only does this kind of substantive overreaching cause problems for the immediate licensee, but it also causes problems for copyright law more generally in much the same way that threats of onerous remedies have a broader systemic impact on the

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<sup>871</sup> Furthermore, if we are to accept that a software licence can be 'bare' in nature (i.e. non-contractual), then the possibility of copyright-based conditions being leveraged to extract positive counter-performance is even more concerning given the relative lack of procedural and substantive protections offered to non-contractual licensees. See, e.g. Patterson, *Must Licences be Contracts? Consent and Notice in Intellectual Property* (2012) 40 Fla. St. U. L. Rev. 105, 147 (discussing the adequacy of notice in copyright law)

<sup>872</sup> Molly van Houweling provides a more practical example: 'A license could say, for example: "permission to reproduce this software for purposes of playing the game is granted only on the condition that the player submits three positive reviews to the GameRate videogame review website." If conditions were not subject to any substantive scrutiny, then failure to submit the positive reviews would take the player's copying outside the scope of the license and therefore into the realm of copyright infringement.' *Van Houweling* (n 284) 1081

behaviour of copyright users.<sup>873</sup> In this respect, the leveraging of copyright further contributes to information cost problems for copyright users, potentially leading to the underutilisation and normative delegitimization of copyright.<sup>874</sup>

**(iii) *Binding Third Parties***

Finally, the CAFC's decision affirms that licensors are free to make any restriction in their initial licence agreement binding against third parties who may receive the code downstream. While the decision gives effect to the specific enforcement objectives of FOSS licence templates, it also raises concerns over the legitimate expectations of third parties who may receive the code downstream.<sup>875</sup>

To the extent that licence 'conditions' limit the scope of a grant, they will also limit the rights that licensees can pass on to third parties (*Nemo dat*).<sup>876</sup> Thus, the CAFC's decision to recognise that parties are free to designate any term as a 'condition' limiting the scope of the grant means that those restrictions will bind any downstream recipient of the code even if there is no direct privity of contract. This affords licensors – both FOSS and proprietary alike – a great deal of control over their code as it passes through successive hands.<sup>877</sup> The danger, however, is that such a degree of control sits in conflict with the

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<sup>873</sup> *Ard* (n 205) 332-334

<sup>874</sup> See above (n 857)

<sup>875</sup> These are by no means novel concerns. Indeed, proprietary software licensors have long relied on similar techniques to ensure that licence restrictions bind third-party recipients in a similar servitude-like manner. See, e.g. *Robinson* (n 284) 1478 ff.; *Radin and Wagner* (n 284) 1312-1313

<sup>876</sup> N.b. The conflation of scope limitations and conditions in common-law scholarship is prevalent, such that conditions are commonly understood to limit the 'scope' of rights and remain enforceable against third parties, see, e.g. *Van Houweling* (n 284) 1080

<sup>877</sup> See FOSS template enforcement objectives at Section 2.3 above.

legitimate expectations of the third parties who acquire copies of the code downstream, in turn leading to increased information costs as those downstream parties seek to ascertain what uses they can make without being liable for infringement.<sup>878</sup>

With that said, where it is shown that a tangible copy of the work has been ‘sold’ and not merely ‘licensed’, the US’s first-sale doctrine will act to exhaust the right-holders’ distribution right in that copy, allowing the purchaser to redistribute the copy without committing an infringement.<sup>879</sup> However, software licensors in the US have traditionally been able to rely on their characterisation of the transaction as a ‘licence’ as a means of avoiding ‘first sale’, so the doctrine is limited in this regard.<sup>880</sup> With that said, the following chapter will argue that the more recent push in US jurisprudence to adopt an ‘economic realities’ approach to resolving the question of copy ownership has the potential to change this.<sup>881</sup>

More importantly, where it is shown that a copy has been ‘sold’ and the distribution right exhausted pursuant to 17 U.S.C. 109, the question then arises as to whether licence restrictions may nevertheless bind the purchaser and subsequent acquirers as contractual ‘post-sale restrictions’.<sup>882</sup> In this regard, where a FOSS licence template purports to establish a direct licensing relationship with each subsequent recipient of the copy, then there is a concern that the restrictions in each of those direct licences may nevertheless be

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<sup>878</sup> See generally, *Van Houweling* (n 410) 630 ff.; *Van Houweling* (n 284); *Mulligan* (n 780)

<sup>879</sup> 17 U.S.C §109

<sup>880</sup> See Section 6.2.1 below.

<sup>881</sup> *Ibid*

<sup>882</sup> *Robinson* (n 284) 1470-75; See also, *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008) fn.7

enforceable against the recipient in contract.<sup>883</sup> This is clearly at odds with the policy objectives embodied in 17 U.S.C §109.<sup>884</sup> However, as noted above, this concern is nothing new as proprietary software licensors have employed similar techniques for years.<sup>885</sup> In this respect, upholding the direct licensing provisions of FOSS templates does not raise new concerns, but simply reinforces some of the more controversial aspects of proprietary software licensing. Once again, this highlights how building a ‘system within a system’ can have the unintended consequence of lending normative legitimacy to the system which it seeks to subvert.

### **[5.2.1.B] Mitigating Factors**

This section gives a very brief overview of some long-standing features of the US legal framework that may act to mitigate the concerns discussed above. The section refrains from discussing some of the more recent developments in US jurisprudence that may be characterised as having a mitigating effect in this respect. These more recent developments in US law will be addressed in detail in the following chapter. This section focuses on three areas: (i) copyright limitations, (ii) contractual limitations, and (iii) exogenous bodies of law.

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<sup>883</sup> The District Court in *Ximpleware v Versata* held that the GPLv2’s direct licensing provision was valid, see (n 697). As discussed in Chapter Three, the direct licensing approach is used in FOSS licence templates to ensure there is privity between the licensor and each individual recipient to, *inter alia*, establish control over downstream copies, see Section 3.3.1.

<sup>884</sup> Public policy against restraints on alienation and anti-competitive restraints on trade, see *Nimmer on Copyright* (n 307) 8.12[A]. It might be argued that such contractual claims are pre-empted under §301(a); however, the decision in *ProCD* limits the effectiveness of such arguments, see below (n 891).

<sup>885</sup> Indeed, a long-standing practice of proprietary software licensors has been to embed EULAs in the software itself with click-wrap agreements requiring each user to agree to terms before running the program, thus establishing direct contractual relationships with each user (including post-sale restrictions).

(i) *Copyright Limitations*

While US copyright law does not impose substantive limitations on the creation of scope limitations or conditions *per se*, it does impose limitations on copyright licensors in the form of federal pre-emption, copyright misuse and fair use doctrines. These three doctrines are tasked with distinct roles; however, they all act as a potentially limiting force when it comes to regulating the powers exercised by right-holders through licence contracts.

*Pre-emption Doctrine*

Federal pre-emption doctrine plays an important role in resolving conflicts between state and federal law.<sup>886</sup> There are two types of pre-emption that may play a limiting role with respect to some of the copyright licensing issues discussed: statutory pre-emption and field pre-emption.<sup>887</sup> The US Copyright Act provides for express statutory pre-emption under 17 U.S.C. §301(a) which states that ‘all legal and equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by Section 106 [...] are governed exclusively by [the Copyright Act]’.<sup>888</sup> Thus, if a licensor brings a state-based claim that is ‘equivalent’ to any of the exclusive rights of copyright, then the claim will be pre-empted by federal copyright law in accordance with this provision.<sup>889</sup> In the context of licensing disputes, the pre-emption analysis under §301(a) is often used to delineate the boundaries between copyright and contract, invalidating contractual claims that are

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<sup>886</sup> See, *Schwartz and Nimmer* (n 225) §1[2]

<sup>887</sup> *Ibid*

<sup>888</sup> 17 U.S.C. §301(a)

<sup>889</sup> On the threshold inquiry for determining whether a state-based claim is ‘equivalent’, see *Schwartz and Nimmer* (n 225) §1[2][a]. Most US courts reviewing the application of §301 adopt what has been described as the ‘extra element’ test, see e.g., *ProCD v Zeidenberg* (n 58) 1454

copyright-like in substance.<sup>890</sup> In this respect, statutory pre-emption effectively acts a tool which courts can use to limit certain forms of substantive overreach through licence contracts; e.g. attempts to create copyright-like protection through contract where it would not otherwise exist.<sup>891</sup>

The problem with relying on the §301(a) pre-emption as a means by which to mitigate the concerns outlined in this chapter is that the doctrine simply does not apply to the legal issues raised. Indeed, for §301(a) to apply, there must be at least be a state-based claim for federal copyright law to pre-empt (e.g. breach of contract). Accordingly, where licensors bring copyright claims pursuant to a breach of an alleged licence ‘condition’, then the pre-emption analysis under §301(a) is irrelevant: the claimant is not asserting a contractual claim that may be ‘equivalent’ to any of the exclusive rights under 17 U.S.C. §106. They are simply asserting their exclusive rights.<sup>892</sup> Thus, §301(a) does not appear to mitigate concerns that arises vis-à-vis onerous remedies and the leveraging of copyright.

However, constitutional or field pre-emption may still apply even if statutory pre-emption does not.<sup>893</sup> This type of pre-emption may arise where the aims of the federal statute (i.e. Copyright Act) are obstructed by state law.<sup>894</sup> It is possible to envisage two

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<sup>890</sup> See, O’Rourke, *Drawing the Boundary Between Copyright and Contract: Copyright Pre-emption of Software License Terms* (1995) 45 Duke L.J. 479

<sup>891</sup> However, the decision in *ProCD*, in which the Easterbrook held that contractual restrictions are not ‘equivalent’ to the exclusive rights under §106 because they do not bind third-parties, has prompted many scholars to argue that pre-emption is no longer an effective tool in this regard, see e.g. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing* (1999) 87 Calif. L. Rev. 111, 140 fn.29

<sup>892</sup> 17 U.S.C. §106. In this respect, the claimant must also establish that the claim ‘arises under’ the Copyright Act in accordance with the procedural rule established in *T.B. Harms Co. v. Eliscu*, 339 F.2d 823 (2<sup>nd</sup> Cir. 1964)

<sup>893</sup> *Schwartz and Nimmer* (n 225) §1[2][b]

<sup>894</sup> *Ibid*

areas in which field pre-emption may play a role. First, federal copyright law could limit right-holders' ability to contractually designate a transaction as a 'licence' instead of a 'sale', removing the issue of copy ownership from purview of state contract law entirely.<sup>895</sup> Secondly, field pre-emption could limit right-holders' ability to contractually designate terms as 'conditions', thus ensuring that contractual tailoring of conditions does not undermine the aims of the federal statute.<sup>896</sup> However, the precise contours of these forms of pre-emption are uncertain and can only be determined by a court, so it remains to be seen whether they could play such a limiting role.<sup>897</sup>

### *Copyright Misuse*

Copyright misuse is an equitable defence under federal law that parties may invoke when right-holders attempt to enforce or exploit their copyright in an abusive or improper manner.<sup>898</sup> It is not a statutory defence, but has instead been developed over the years by the US courts.<sup>899</sup> Notwithstanding its judicial origins, there are relatively few cases dealing with the copyright misuse doctrine and, as such, the exact dimensions of the defence are

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<sup>895</sup> Certainly, the ability to contractually designate a transaction as a 'licence' may deprive the users of their rights under 17 U.S.C. §109 and 117 contrary to the aims of federal copyright law. See, *Carver* (n 55) 1949-1950. The issue of copy ownership is discussed further below at Section 6.2.1.

<sup>896</sup> See, Newman, *What Exactly Are You Implying? The Elusive Nature of the Implied Copyright License* (2014) 32 *Cardozo Arts & Ent. L.J.* 501, 552 (arguing that copyright licences are creatures of federal copyright law and should be treated as such). However, this raises the question of what interpretive framework would be used instead, see, *Patterson* (n 871) 144 ('if not contract, what?')

<sup>897</sup> *Carver* (n 55) 1951; Kim, *The Software Licensing Dilemma* (2008) *BYU L. Rev.* 1103, fn.62-63

<sup>898</sup> See, *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990); *Nimmer on Copyright* (n 307) § 13.09[A]

<sup>899</sup> US courts had long recognised the doctrine of patent misuse. The doctrine was first applied to copyright by the Fourth Circuit in *Lasercomb v Reynolds* and it has seen further development, although some circuits have yet to rule on the issue. See, *Cross and Yu* (n 861) 455-459

not known.<sup>900</sup> However, the leading case authority maintains that when applying the defence courts should ask ‘whether copyright is being used in a manner violative of the public policy embodied in the grant of a copyright’.<sup>901</sup> This leaves a great degree of scope for courts to take into account broader public policy when applying the defence in practice. Some notable findings of misuse include attempts by the right-holder to unduly restrict competition through licensing practices and attempts to extend the powers of copyright beyond the scope of rights set out in the Copyright Act.<sup>902</sup>

Given all this, the copyright misuse doctrine appears as though it may be well-suited for dealing with some of the concerns raised above. Indeed, where a licensor wields their copyright in a punitive manner to seek onerous remedies from an unwitting infringer, this could very well be deemed contrary to the public policy of the grant.<sup>903</sup> Similarly, where a licensor tries to leverage copyright to exact counter-performance that falls outside the scope of the copyright, the defence of misuse may provide relief.<sup>904</sup> The more egregious the abuse or the substantive overreach, the more likely the defence will come to one’s aid. With that said, some may argue – certainly in the case of FOSS – that the leveraging of copyright

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<sup>900</sup> For further discussion on scope of the misuse defence, see, Hartzog, *Gaining Momentum: A Review of Recent Developments Surrounding the Expansion of the Copyright Misuse Doctrine and Analysis of the Doctrine in Its Current Form* (2003) 10 Mich. Telecomm. & Tech. L. Rev. 373

<sup>901</sup> *Lasercomb v Reynolds* (n 898) 978

<sup>902</sup> *Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772, 793-94 (5th Cir. 1999); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1026 (9th Cir. 2001); *Assessment Techs. of WI, LLC v. WIREdata, Inc.*, 350 F.3d 640, 647 (7th Cir.2003).

<sup>903</sup> The public policy of the grant is premised on an exchange of short-term exclusivity for long term efficiency gains in investment, production and dissemination of creative and innovative works. To the extent that onerous remedies undermine those efficiency gains (e.g. through underutilisation), then it may be argued there is misuse.

<sup>904</sup> It has also been argued that the use of ‘licences’ to avoid first sale and bind third-parties may be considered misuse, see Zinda, *Preserving the Copyright Balance: Why Copyright Misuse Should Invalidate Software Licences Designed to Prohibit Resale and Oust Service Market Competition* (2011) 48 Hous. L. Rev. 1241

serves an important role in vindicating the economic rights of the author while also working to ‘promote the progress of science and the useful arts’ and as such does not violate the public policy of the grant.<sup>905</sup> The only issue with relying on the copyright misuse doctrine as a means of mitigating the concerns outlined above is that there is relatively little precedent and, as such, the defendant must assume substantial risk in going to trial for the defence to be exercised.

### *Fair Use*

US copyright law recognises the defence of fair use under 17 U.S.C. §107.<sup>906</sup> Under this provision, US courts are given the discretion to determine whether a given use of a work is insulated from an author’s claim of copyright infringement for being a ‘fair use’.<sup>907</sup> In exercising their discretion, the courts are guided by the four factors set out under the statute.<sup>908</sup> While the present section will refrain from examining in detail the formulation and application of fair use doctrine in relation to software use, it is worth highlighting the fact that the defence may play a limiting role in relation to some of the concerns outlined above. Indeed, where software licensor asserts a copyright claim for breach of a licence restriction, the licensee may be able to defend against that infringement claim on the grounds of fair use. For example, if a licensee reverse engineers a program for the purposes

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<sup>905</sup> U.S. Constitution, Art 1, §8, cl.8. Certainly, the CAFC in *Jacobsen* acknowledged that leveraging copyright served to promote the public policy of the grant. See, *Jacobsen* (n 638)

<sup>906</sup> For discussion on the fair use doctrine under 17 U.S.C. §107, see *Nimmer on Copyright* (n 307) §13.05[A]

<sup>907</sup> See, *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994) 577 (‘The fair use doctrine thus permits [and requires] the courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster.’)

<sup>908</sup> See, 17 U.S.C. §107

of interoperability in breach of the restrictions and the licensor then sues for infringement,<sup>909</sup> then the licensee may assert fair use as an affirmative defence in relation to the act of reverse engineering.<sup>910</sup> However, the defence is limited in terms of how it may mitigate the concerns raised in this chapter. If, for example, the licensee's actions trigger the termination of the licence and they continue to perform acts that are not deemed to be fair use, then the defence will not be available.<sup>911</sup>

**(ii) Contractual Limitations**

In addition to copyright limitations, US copyright licensors are subject to the rules and principles that govern contractual relationships provided, of course, that their licence is considered to be contractual in nature.<sup>912</sup> Given the sheer vastness of the topic and the abundance of scholarship on the contractual dimensions of licensing, this section limits itself to giving a brief overview of three general areas of contract law which may protect licensees from potential abuse by licensors: (i) procedural rules, (ii) substantive rules, and (iii) interpretive rules.

Before proceeding, it is worth remembering that there is no uniform federal contract law in the US. Instead, each state has its own common law of contract. With that said, certain areas of contract law have become relatively standardised across the US through

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<sup>909</sup> Similar to Section 69e UrhG or Article 6(3) of Directive 2009/24/EC, see Section 5.1.1.D above.

<sup>910</sup> See, e.g. *Sega v Accolade*, 977 F.2d 1510 (9<sup>th</sup> Cir. 1992); *Sony Computer Entertainment, Inc. v. Connectix Corp.*, 203 F.3d 596 (9<sup>th</sup> Cir. 2000); See also, Asay, *Transformative Use in Software* (2017) 70 Stanford L. Rev. Online. 9

<sup>911</sup> See *Ard* (n 205) 337-338 (noting how the use of 'conditions' that terminate the licence will still raise concerns that fair use doctrine cannot address)

<sup>912</sup> For discussion on the concept of 'bare' or non-contractual licences, see Section 4.2.1.A above.

the universal adoption of the Uniform Commercial Code (UCC)<sup>913</sup> and through harmonising forces like the *Restatement of the Law of Contracts* which elucidate general principles of common law from across all the states.<sup>914</sup> Given all this, there is significant scope for divergence in the applicable contractual rules based upon the location of parties and the subject matter of the contract. This section will examine the three areas set out above in a very general manner while avoiding the complexities that a more rigorous contractual analysis might entail.

### ***Procedural Rules***

Procedural rules do not regulate the substance of an agreement, but the process by which an agreement is established. They are perhaps more commonly referred to as contractual formalities or formation requirements.<sup>915</sup> These rules play a fundamental role in ensuring that parties are only contractually bound by those terms for which there has been sufficient notice and a clear manifestation of assent.<sup>916</sup> While, at least in theory, these procedural rules might act to ensure that contractual licensees are fully aware of the risks they undertake when entering into a licence agreement (e.g. whether they are exposed to onerous

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<sup>913</sup> The UCC establishes a uniform set of rules across all 50 states with respect to sales contracts and various other forms of commercial transactions. In the late 1990s, the NCCUSL proposed a new Article 2B for dealing with transactions in information (including software licences); however, the proposed Article 2B was rejected and ultimately reformulated as the UCITA, see (n 575). See generally, *O'Rourke* (n 574)

<sup>914</sup> National Conference of Commissioners on Uniform State Laws, *Uniform Computer Information Transactions Act* (LexisNexis, 2002). A similar harmonising initiative includes the American Law Institute's Principles of the Law of Software Contracts; see, ALI, *Principles of the Law Software Contracts: as adopted and promulgated by the American Law Institute at Washington, D.C., May 19, 2009* (ALI Publisher, 2010)

<sup>915</sup> Not to be confused with rules of civil procedure.

<sup>916</sup> See generally, Fuller, *Consideration and Form* (1941) 41 Colum.L.Rev. 799 (discussing the functional role of contractual formalities)

remedies on breach), in practice US courts routinely enforce licence contracts where the licensee does not have actual notice of the terms and where the manifestation of assent has been judicially constructed.<sup>917</sup> Certainly, if we look at the FOSS case law, we find that the US courts have not engaged with questions of contractual formation, notwithstanding the significant debate surrounding this issues in FOSS scholarship.<sup>918</sup> Thus, the extent to which these rules can mitigate the concerns outlined above is limited in so far as US courts are willing to apply them in a rigorous manner.<sup>919</sup> Many US scholars have argued that courts should give greater scrutiny to the adequacy of notice and assent for standardised ‘wrap contracts’ to ensure, *inter alia*, that unsuspecting licensees are not caught out by abusive, arbitrary or idiosyncratic licence conditions; however, US courts have generally continued to err on the side of efficiency.<sup>920</sup>

### ***Substantive Rules***

Substantive rules are those that regulate the substance (i.e. the object and effect) of contractual terms. While US law firmly adheres to the principle of freedom of contract, it nevertheless recognises certain limitations on the validity and enforceability of contractual terms. For example, where a term in a contract is found to be extremely oppressive or harsh

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<sup>917</sup> See, Lemley, *Terms of Use* (2006) 91 Minn. L. Rev. 459, 464 (discussing the ‘Death of Assent’). See also, Zhu (n 49) 143-146

<sup>918</sup> See above (n 568)

<sup>919</sup> US courts have been more rigorous in scrutinising notice and assent in relation to browse-wrap agreements, but arguably less so with shrink-wrap, click-wrap, scroll-wrap and sign-in wrap agreements. See e.g., *Specht v. Netscape Communications Corp.*, 306 F.3d 17 (2<sup>nd</sup> Cir. 2002); See also, Canino, *The Electronic "Sign-in-Wrap" Contract: Issues of Notice and Assent, the Average Internet User Standard, and Unconscionability* (2017) 50 U.C.D. L. Rev. 535, 539

<sup>920</sup> However, some have argued that US courts are engaging in a more nuanced analysis of notice and assent in relation to online contracting, see, Kim, *Online Contracting: New Developments* (2017) *The Business Lawyer* 72:243

on the non-negotiating party, then the courts may refuse to enforce that term on the grounds of unconscionability.<sup>921</sup> With that said, US courts have generally been reluctant to strike down contractual terms *ex post* provided there is sufficient notice and opportunity to read them.<sup>922</sup> Indeed, to succeed on grounds of unconscionability, the licensee typically has to prove that the agreement was both procedurally and substantively unconscionable.<sup>923</sup> While the threshold for the application of these kinds of substantive rules may be very high under US contract law, and applicants rarely succeed, they nevertheless provide a possible source of relief for licensees who find themselves subject to contractual terms that are manifestly unjust or oppressive in nature. Finally, as will be discussed below, contract law is not the only source of substantive rules that may apply to the terms of a licence contract. Other regulatory regimes have their own substantive rules that govern specific transactions depending on their subject matter or identity of parties (e.g. consumer protection).<sup>924</sup>

### ***Interpretive Rules***

Interpretive rules are those which guide courts in their interpretation of contracts. When faced with ambiguous contractual terms, US courts endeavour to discern the intentions of the parties.<sup>925</sup> However, states often differ in their approach to discerning parties' intent.

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<sup>921</sup> Unconscionability doctrine has a formal footing in the UCC (§2-302), the UCITA (§1.11), and in the *Restatement (Second) of Contracts* (§208). For an overview of the doctrine, see Schmitz, *Embracing Unconscionability's Safety Net Function* (2006) 58 Ala. L. Rev. 73

<sup>922</sup> See, DiMatteo & Rich, *A Consent Theory of Unconscionability: An Empirical Study of Law in Action* (2006) 33 Fla. St. U. L. Rev. 1067 (conducting an empirical study to show that a claim of unconscionability is difficult to establish in practice)

<sup>923</sup> *Margae Inc. v. Clear Link Technologies*, 2008 WL 2465450 (D. Utah, 2008). See also, DiMatteo & Rich (n 922) 1072 (discussing further the substantive and procedural bifurcation)

<sup>924</sup> See next sub-section.

<sup>925</sup> *Corbin on Contracts* (n 197) §24.1

For example, in some states, courts may look only to the ‘plain language’ of the contract, whereas in other states the courts may take into consideration extrinsic evidence.<sup>926</sup> Courts may also apply other canons of interpretation; e.g. taking into account the parties’ course of dealings or established industry practices,<sup>927</sup> or by construing any ambiguities against the drafter (i.e. *contra proferentum*).<sup>928</sup>

While licensors may have the freedom to designate any licence term as a condition, it is ultimately up to the courts to determine whether they have made their intentions sufficiently clear in this regard. In many cases, it may not be immediately clear whether a term is intended to be a condition or a mere covenant. In these instances, US courts will rely on interpretive rules of the applicable state contract law to discern the parties’ intentions.<sup>929</sup> This gives US courts some discretion in so far as they may adopt different approaches to contractual interpretation.<sup>930</sup> Indeed, such principles and rules of interpretation may provide courts with another lever with which they can temper potential abuse or overreach. For example, if a licensor seeks to enforce an arbitrary or idiosyncratic

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<sup>926</sup> The two approaches are sometimes referred to as ‘textualist’ and ‘contextualist’, see, e.g. Gilson, Sabel and Scott, *Text and Context: Contract Interpretation as Contract Design* (2014) 100 *Cornell L. Rev.* 23, fn.6 (A state-by-state survey shows that a strong majority of US courts continue to follow a traditional, textualist or ‘formalist’ approach to interpretation comprising 38 states and District of Columbia. Nine states, along with the UCC and *Restatement (Second) of Contracts*, adopt a contextualist or anti-formalist approach.)

<sup>927</sup> *Corbin on Contracts* (n 197) §24.7-10. See, e.g. *Ventura v. Titan Sports, Inc.*, 65 F.3d 725, 731 (8th Cir. 1995); UCC §2-202

<sup>928</sup> *Corbin on Contracts* (n 197) §24.27

<sup>929</sup> For example, in *Jacobsen v Katzer*, the CAFC applied Californian state contract law. Other states have different interpretive rules regarding conditions, see, e.g. *Grand Union Co. v. Cord Meyer Dev. Co.*, 761 F.2d 141, 147 (2d Cir. 1985) (applying New York contract law holding that a provision is to be construed as a mere covenant in the absence of more compelling evidence of the parties’ intent to the contrary). See also, *Restatement (Second) of Contracts*, §227 (‘Standards of Preference with Regard to Conditions’)

<sup>930</sup> It also makes FOSS licence enforcement subject to variations in state law, i.e. the very thing that bare licence proponents warned against when rejecting the contractual interpretation of FOSS licences. See above (n 581).

term as a condition and there is a dispute over its intended effect, then the court may, *inter alia*, look to established industry practice for interpretive guidance. Such extrinsic aids may have a mitigating effect on potential abuse by bringing the interpretation in line with the expectations of industry or community. Of course, such rules are limited in terms of their mitigating effect as courts cannot override the expressed intent of the parties.<sup>931</sup> Thus, an objective clear, unambiguous condition will always stand irrespective of the interpretive rules a court may apply.

### **(iii) *Exogenous Bodies of Law***

Finally, there are various other bodies of law that may act to limit licensors in their ability to enforce terms as licence conditions. For example, the imposition of licence conditions may raise certain issues under antitrust law or consumer protection law.<sup>932</sup> While these exogenous bodies of law have the potential to act as mitigating factors, they fall outside the ambit of this thesis.

## **[5.2.2] Concluding Remarks**

In seeking to give effect to the enforcement objectives of FOSS licence templates, the US courts have simultaneously paved the way for proprietary licensors to seek onerous

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<sup>931</sup> See, *Dun & Bradstreet Software Servs., Inc. v. Grace Consulting, Inc.*, 307 F.3d 197 (3d Cir. 2002) 211 ('Custom and practice in the computer industry, and the evidence of it in this record is vague and conclusory, is no authority to disregard or trump the specific terms of a valid license agreement or the provisions of the Copyright Act.')

<sup>932</sup> In discussing these exogenous limitations, Gomulkiewicz argues that 'relying on an analytical distinction between license conditions and pure covenants may not be the best way to temper potential abuses by licensors.' *Gomulkiewicz* (n 196) 359. These exogenous 'boundaries' are further discussed in, Gomulkiewicz, Nguyen and Conway-Jones, *Intellectual Property, Software and Information Licensing: Law and Practice* (BNA, 2006) 31-39

remedies, leverage copyright and bind third parties simply through the carefully drafting of licence provisions. Unlike the German courts, however, the US courts did not need to depart from existing doctrinal rules or engage in legal gymnastics to arrive at this position. Instead, they simply reaffirmed the laissez-faire approach characteristic of US licensing jurisprudence, deferring to the intentions of the parties while relying on the interpretive tools of contract law as a means by which to interpret them.<sup>933</sup> While the FOSS enforcement case law does not disturb the delicate architecture of the licensing framework in the way as German FOSS case law, it nevertheless raises similar concerns by embracing and extending of the laissez-faire ideology of US licensing jurisprudence.

### **[5.3] Chapter Summary**

This chapter has highlighted the potential dangers of building a system within a system. In particular, it has shown how the validation and enforcement of FOSS licence templates under both German and the US law has given rise to unforeseen and unintended consequences in the broader legal frameworks, disturbing the balance of the respective system and giving right-holders more extensive powers at the expense users and competitors. Certainly, the failure by German and US courts to limit their findings to the FOSS context – i.e. to make a clear distinction between the two systems – has paved the way for similar features to be adopted in the commercial and consumer licensing context, raising concerns over the potential for abuse. In response, we have seen a significant shift in the regulatory framework as copyright limitations give way to the procedural and substantive limitations of contract law. As noted, this regulatory shift shapes the normative lens through which we approach the issues of copyright exploitation. There is a palpable

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<sup>933</sup> See Section 5.2.1 above.

irony to all of this. In seeking to promote an alternative vision of software exploitation to that of the proprietary model, FOSS licence templates have further contributed to legal foundations of the proprietary model, conferring on proprietary licensors greater powers and freedom to pursue a maximalist approach to the propertisation of software. As we shall see in the next chapter, there are two sides to this coin. While the successful enforcement of FOSS licence templates empowers proprietary licensors, efforts to limit the powers of proprietary licensors in the interests of users and the public similarly threaten to undermine the enforceability of FOSS licence templates.

## **Chapter 6: Recent Legal Developments and FOSS Licence Enforcement**

### **[6.0] Introduction**

This chapter examines some recent developments in both German and US copyright law that indirectly impact on the enforceability of FOSS licence templates. What these developments share in common is that they can all be viewed as attempts by domestic courts to limit the powers of right-holders in the interests of users and the broader public. As such, they oppose the maximalist tendencies of the proprietary model and promote many of the values embodied in FOSS licence templates. In many ways, these developments can be understood as a response to some of the general concerns outlined the previous chapter (e.g. onerous remedies, substantive overreach, and the binding of third parties). As part of the broader analysis of FOSS licence enforcement, this chapter will consider in detail the impact that these recent developments have had on the continued enforceability of FOSS licence templates. The irony is that these recent developments appear to undermine the realisation of FOSS licence objectives (see Chapter 2), notwithstanding the fact that they are intended to promote these objectives more generally in German and US law. Accordingly, this chapter highlights the inverse dangers of building a subversive system within a system in which the fates of both are intrinsically intertwined and where the objectives pursued in one may become hostage to a series of normative commitments in the other.

### **[6.1] Germany**

While there have numerous doctrinal developments in German licensing jurisprudence over the last ten years, one development stands out in terms of the its capacity to undermine

enforceability of FOSS licence templates under German law; namely, the recognition of exhaustion in relation to the online distribution of software. The present section will give a brief overview of the CJEU's controversial decision in *UsedSoft* and consider the effect that it has had on the realisation of FOSS licence enforcement objectives under German law.

### [6.1.1] Digital Exhaustion

As already discussed in Chapter Five, the German Copyright Act (UrhG) has two separate provisions dealing with exhaustion.<sup>934</sup> While Section 17(2) establishes a general exhaustion rule in relation to authorial works, Section 69c(3) sets out a distinct rule in relation to computer programs.<sup>935</sup> For almost two decades, the prevailing view in German copyright jurisprudence was that only tangible copies were subject to exhaustion under these two provisions.<sup>936</sup> This conventional view was rationalised on several grounds. First, given the fact that exhaustion was initially devised as a means by which to reconcile intellectual property rights with property rights in the physical article, applying the doctrine to intangible copies was seen to go beyond the scope of its classical justification.<sup>937</sup> Secondly, the articles and recitals of the relevant EU Directives were held to limit exhaustion to

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<sup>934</sup> See Section 5.1.1.B above.

<sup>935</sup> *Ibid*

<sup>936</sup> See, *Dreier/Schulze* (n 742) §17 para 25, §69c para 24; Schricker and Loewenheim, *Urheberrecht* (3rd. ed., C.H. Beck, 2006) §17 para 37, §69c para 33; Schack, *Rechtsprobleme der Online-Übermittlung* (2007) GRUR 2007, 639; Spindler, *Der Handel mit Gebrauchtsoftware - Erschöpfungsgrundsatz quo vadis?* (2010) CR 69. For case law, see Regional Court of Munich, No. 7 O 23237/05 (19.1.2006); Higher Regional Court of Munich, No. 6 U 1818/06 (3.8.2006); Higher Regional Court of Munich, No. 6 U 2759/07 (03.07.2008); Higher Regional Court of Frankfurt, No. 11 W 15/09 (12.5.2009); Regional Court of Munich, No. 7 O 7061/06 (15.3.2007)

<sup>937</sup> For theoretical foundations, see *Kohler* (n 746) 452-459; *Berger* (n 758) 414 ff.

tangible copies.<sup>938</sup> Thirdly, as a doctrinal matter, ‘licence contracts’ governing the transmission of digital copies were generally not considered to be ‘contracts of sale’ or ‘dispositions’ in accordance with the BGB’s contractual typology.<sup>939</sup> And finally, even if licence contracts were deemed to be dispositions, it was well-established under German law that exhaustion only applied in respect of the distribution right.<sup>940</sup> The resale of a digital copy would nevertheless be held to be an infringement given that the act of retransmission necessarily involves the making of a new reproduction of the work, thus implicating rights not subject to exhaustion.<sup>941</sup> Notwithstanding these theoretical and doctrinal objections, some German scholars advocated for digital exhaustion.<sup>942</sup> Indeed, it was argued, *inter alia*, that right-holders should not be able to interfere with the free movement of digital goods and that the law should reflect both the economic realities of such transactions and the expectations of consumers.<sup>943</sup>

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<sup>938</sup> Recital 29 and Article 3(3) of Directive 2001/29/EC; see, e.g., Higher Regional Court of Munich, No. 6 U 1818/06 (03.08.2006); *Spindler* (n 936) 70 ff.

<sup>939</sup> German civil law has a robust classificatory system for contracts. There has long been debate in German scholarship over the classification of the ‘licence contract’ (*Lizenzvertrag*) under the contractual typology inherent in the BGB (*Vertragstypologie*). The classification of a licence contract as either a one-off dispositional contract (*Austauschverträge*) or an ongoing relational contract (*Dauerschuldverhältnis*) can be instrumental in determining, *inter alia*, whether a work has been ‘put on to the market with consent’, see, e.g., König, *Das einfache, unentgeltliche Nutzungsrecht für jedermann* (Doctoral Dissertation, Goethe University Faculty of Law, 2016) 24-32; Reimer, *Die rechtliche Ausgestaltung der Lizenz und ihre Einordnung in das System des bürgerlichen Rechts* (Dissertation, Göttingen, 1968); *Pahlow* (n 304) 256 ff.; *McGuire* (n 304) 676 ff.. As will be discussed below, the CJEU subsequently established that ‘sale’ within the meaning of Art.4(2) of Directive 2009/24/EC is an autonomous concept under EU law. See (n 950)

<sup>940</sup> Sections 17 and 69c(3) UrhG

<sup>941</sup> N.b. Digital exhaustion has been rejected on these grounds in the US, see *Capitol Records, LLC v ReDigi, Inc.*, 934 F. Supp. 2d. 640 (S.D.N.Y, 2013).

<sup>942</sup> See generally, *Grützmacher* (n 742) 305; *Berger* (n 742); Rigamonti, *Der Handel mit Gebrauchtssoftware nach schweizerischem Urheberrecht* (2009) GRUR Int. 14; Leistner, *Gebrauchtssoftware auf dem Weg nach Luxemburg* (2011) CR 209

<sup>943</sup> *Ibid*

It was against this backdrop that in 2004 the Munich Court issued its influential decision in *Welte v Sitecom*; a decision in which the Munich Court expressly applied the conventional view on exhaustion to the online transmission of FOSS.<sup>944</sup> Several years later, it was against this same backdrop that a reference was made to the CJEU by the BGH seeking clarification on certain issues concerning the interpretation of Articles 4(2) and 5(1) of the Software Directive.<sup>945</sup> As will now be discussed, the CJEU's response to this reference signalled a controversial departure from the conventional view that exhaustion only applied to tangible copies, in turn raising questions over the enforceability of FOSS licences in the online environment.

#### **[6.1.1.A] *UsedSoft v Oracle***

The claimant, Oracle, developed and marketed its client-server software to customers online. The licence agreement permitted customers to download a copy of the software from the Oracle website and to install it on a server accessible by up to twenty-five users.<sup>946</sup> The agreement stated that, in return for a one-off payment, the customer would receive a non-exclusive, non-transferable right to use the software for an unlimited period. A separate maintenance agreement allowed Oracle customers to download updates and patches from the Oracle website on an ongoing basis. The defendant, UsedSoft, purchased unused licence keys from Oracle customers and offered to sell them as 'used licences', using a system of notarial certificates to ensure that the initial copy was deleted. UsedSoft's

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<sup>944</sup> See above (n 508)

<sup>945</sup> Federal Court of Justice, No. I ZR 129/08 (03.02.2011) – *UsedSoft*

<sup>946</sup> *Usedsoft v Oracle* (n 730)

customers would then download a copy of the program from Oracle’s website and activate it using the purchased licence key.

Oracle sought an injunction to prevent UsedSoft and their customers from infringing their rights of reproduction in the client-server software. However, UsedSoft argued that they were lawfully entitled to sell ‘used licences’ pursuant to Article 4(2) of the Software Directive and that their customers could then download and run the software as ‘lawful acquirers’ under Article 5(1).<sup>947</sup> Despite the lower courts initially deciding in favour of Oracle, the appeal eventually reached the BGH who subsequently referred several questions to the CJEU.<sup>948</sup>

The CJEU were first asked to clarify whether and under what circumstances the download of a computer program from the internet – authorised by the right-holder – could be deemed a ‘first sale’ for the purposes of Article 4(2) of the Software Directive.<sup>949</sup> The Court concluded that ‘first sale’ was an autonomous concept of EU law.<sup>950</sup> Accordingly, the CJEU sought to establish a definition removed from national law.<sup>951</sup> The Court began by noting that the download of the program and a separate grant of rights formed an ‘indivisible whole’ and were to be given equal treatment as such.<sup>952</sup> Accordingly, it was held that where the licence agreement granted a right to use the copy for an unlimited period in return for the payment of a fee corresponding to the economic value of the copy, then

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<sup>947</sup> Section 69c(3) and 69d(1) UrhG respectively.

<sup>948</sup> *UsedSoft* (n 945)

<sup>949</sup> *UsedSoft* (n 730) [35]

<sup>950</sup> *Ibid* [40]

<sup>951</sup> See above (n 939)

<sup>952</sup> *UsedSoft* (n 730) [44]

the transaction as a whole – i.e. the download and separate grant of rights – would amount to a ‘first sale’ for the purposes of Article 4(2) of the Software Directive.<sup>953</sup>

While the CJEU acknowledged that exhaustion of the distribution right referred to in Article 4(2) of the InfoSoc Directive only covered tangible copies, they nevertheless maintained that this did not preclude exhaustion under Article 4(2) of the Software Directive from covering both tangible and intangible copies.<sup>954</sup> Indeed, the CJEU held that the Software Directive constituted a *lex specialis* in relation to the InfoSoc Directive and, as such, was to be read in light of its own distinct objectives.<sup>955</sup>

Finally, the CJEU noted that, from an economic point of view, there was little reason to subject the sale of tangible and intangible copies of computer programs to different treatment.<sup>956</sup> Indeed, to distinguish in such a manner would, *inter alia*, allow right-holders to demand further remuneration for each new sale even though the initial transaction had enabled them to obtain appropriate remuneration.<sup>957</sup>

Having addressed the initial issue of exhaustion, the CJEU then considered whether and under what conditions the second acquirers (i.e. UsedSoft’s Customers) could lawfully download, install and run their ‘used’ copy of the program. As already noted above, the act of transmitting a digital copy from one party to another necessarily involves an act of reproduction on the part of the second acquirer.<sup>958</sup> Thus, it was not enough that the

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<sup>953</sup> *Ibid* [46]

<sup>954</sup> *Ibid* [59]

<sup>955</sup> *Ibid* [51]

<sup>956</sup> *Ibid* [61]

<sup>957</sup> *Ibid* [63]

<sup>958</sup> See above (n 941)

distribution right in the initial download had been exhausted, it had to be shown that UsedSoft and their customers were entitled to make further reproductions of the program for digital exhaustion to have any meaningful effect in practice. In this regard, the CJEU were asked by the BGH to clarify whether UsedSoft and their customers could rely on Article 5(1) of the Software Directive to make reproductions of the program as ‘lawful acquirers’.<sup>959</sup>

The CJEU responded in the affirmative, stating that the purchasers of ‘used licences’ were, as a result of exhaustion, deemed to be ‘lawful acquirers’.<sup>960</sup> This meant that they were entitled to download, install and run the program without authorisation on the proviso that the party who ‘re-sold’ their copy made it ‘unusable at the time of its resale’.<sup>961</sup> Remarkably, this was notwithstanding an express term in the initial agreement prohibiting the transfer of rights.<sup>962</sup>

Overall, the effect of the CJEU’s decision in *UsedSoft* was to approve the sale of ‘used’ software. The decision ultimately proved rather controversial, not only because the CJEU’s reasoning was open to severe criticism on legal grounds,<sup>963</sup> but also because it threatened to undermine the established business models of the software industry.<sup>964</sup>

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<sup>959</sup> i.e. Section 69d(1) UrhG

<sup>960</sup> *UsedSoft* (n 730) [80], [84]

<sup>961</sup> *Ibid* [78]

<sup>962</sup> *Ibid* [84]

<sup>963</sup> Not only was the CJEU decision criticised for its derogation from established German doctrine (see generally, e.g. Haberstumpf, *Der Handel mit gebrauchter Software im harmonisierten Urheberrecht* (2012) CR 561), but it was also criticised for derogating from international copyright treaties, see, e.g. Moon, *Europe in breach of international copyright treaty* (AJ Park, 14 November 2012) <[www.ajpark.com/ip-central/news-articles/2012/11/europe-in-breach-of-international-copyright-treaty/](http://www.ajpark.com/ip-central/news-articles/2012/11/europe-in-breach-of-international-copyright-treaty/)> accessed 28.08.17.

<sup>964</sup> See, Batchelor & Keohane, *UsedSoft—Where to Now for Software Vendors?* (2012) 33 E.C.L.R. 545; Moscona, *The Software Industry Wakes up to a Brave New World* (Lexology, 2012)

Certainly, the CJEU's decision appeared to be influenced more by normative considerations than by any principled or internally-coherent doctrinal analysis of the questions referred.<sup>965</sup> Read in this light, we can view the decision as an attempt by an active judiciary to limit the power of right-holders in the interest of users and competitors. Despite the criticisms, the BGH subsequently confirmed the CJEU's decision by applying the CJEU's reasoning in a number of cases, making further additions and clarifications to the principle of exhaustion set out under Section 69c(3) of the UrhG.<sup>966</sup>

### **[6.1.1.B] Impact of on the Enforceability of FOSS Licences**

At this point, it is necessary to consider what impact the CJEU's decision has had on the enforceability of FOSS licence templates. As discussed in Chapter Two, FOSS licence templates are drafted with the specific enforcement objective of ensuring that restrictions 'run with the code' so that right-holders have control over copies of their work irrespective of how far removed they are down the chain of conveyance.<sup>967</sup> In this regard, the doctrine of exhaustion has always been seen to pose a threat to the realisation of FOSS licence objectives.<sup>968</sup> However, prior to *UsedSoft*, exhaustion was a threat that could be easily mitigated by, *inter alia*, making the code only available for download. By doing this, it was

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<[www.lexology.com/library/detail.aspx?g=aac5d4c0-1ec4-4bd8-b35f-e95a8330ae2b](http://www.lexology.com/library/detail.aspx?g=aac5d4c0-1ec4-4bd8-b35f-e95a8330ae2b)> accessed 28.08.17.

<sup>965</sup> See generally, *Nicholson, Old Habits Die Hard?: UsedSoft v Oracle* (2013) 10:3 SCRIPTed 389 (discussing the purposive or teleological approach adopted the CJEU's to arrive at their decision)

<sup>966</sup> *UsedSoft II* (n 806); *UsedSoft III* (n 806); Federal Court of Justice, No. I ZR 4/14 (19.3.2015) – *Green IT*. For commentary on subsequent case law regarding non-software content, see Savic, *The Legality of Resale of Digital Content after UsedSoft in Subsequent German and CJEU Case Law* (2015) 37 E.I.P.R. 414

<sup>967</sup> See Section 2.3.2 above.

<sup>968</sup> See Section 2.3.2.B(i) above

generally accepted that exhaustion would not occur and the right-holder would retain control over each successive conveyance.<sup>969</sup> However, as will now be shown, the decision by the CJEU in *UsedSoft* cast doubts over this basic premise, in turn raising concerns over whether FOSS licence restrictions are at risk of being unenforceable against downstream recipients. To assess whether there is any substance to these concerns, we can apply the principles established by the CJEU in *UsedSoft* to FOSS licences as summarised in the following four questions:

- (1) Is there a download of a copy and concomitant grant of rights?
- (2) Is the grant of rights for an unlimited period?
- (3) Is the grant of rights made in return for the payment of a fee that enables the right-holder to receive remuneration corresponding to the value of the copy?
- (4) Does the initial acquirer deactivate their copy on resale?

The first question is rather uncontentious as the download of a copy of FOSS will invariably be accompanied by a grant of rights under the relevant FOSS licence.<sup>970</sup> As for the second question, the answer will depend on the provisions of the applicable FOSS licence. Generally, FOSS licences grant to licensees their rights for the full term of copyright, i.e. they are envisaged to vest in the licensee in perpetuity.<sup>971</sup> This is usually achieved by stating

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<sup>969</sup> See generally Section 3.3 above.

<sup>970</sup> For source code, licences are typically affixed in a 'COPYRIGHT' file or in the header of each individual file. For binary-only code, licences will typically be presented before download, on installation (e.g. interactive interface), or in a 'README' file. See Section 2.2.1 above.

<sup>971</sup> This raises several questions over the revocability of FOSS licences. For a German perspective on revocability, see generally, *König* (n 939) Part 4. For a US perspective, see *Kumar* (n 218) 14. See also the discussion on 17 U.S.C. §203 termination rights, Armstrong, *Shrinking the Commons: Termination of Copyright Licenses and Transfers for the Benefit of the Public* (2010) 47 HJOL 359

in the granting clause of the licence that the rights are ‘perpetual’ or ‘irrevocable’ in nature.<sup>972</sup> Certainly, it is unheard of for FOSS licences to contain terms that limit the duration of the grant.

The third question, however, proves somewhat more controversial. This is because FOSS licences are usually granted to the public free of charge. Where this is the case it will be extremely difficult to establish that the right-holder has received remuneration corresponding to the economic value of the copy. With that said, there may be circumstances where the licensor charges a monetary fee for the download of a copy. Certainly, there is nothing to prohibit FOSS licensors from doing so.<sup>973</sup> As per the mantra of the Free Software Movement, the software subject to a FOSS licence is ‘free’ as in ‘free speech’, not as in ‘free beer’.<sup>974</sup> Accordingly, where a payment is made by the licensee, it must be shown that it corresponds to the economic value of the copy. This is by no means unachievable, but it does raise the difficult question of how one goes about quantifying the ‘economic value’ of a copy of FOSS.<sup>975</sup>

While the CJEU defines the autonomous concept of ‘first sale’ in such a way as to expressly limit it to instances where there has been remuneration in the form of a monetary payment, one might question whether other forms of remuneration that ‘correspond to the economic value of the copy’ may be sufficient. For example, it might be argued that a

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<sup>972</sup> E.g. Section 2, GPLv3 (‘All rights granted under this License are granted for the term of copyright on the Program, and are irrevocable provided the stated conditions are met.’)

<sup>973</sup> See, FSF, *FAQ about the GNU Licence*, <[www.gnu.org/licenses/gpl-faq.en.html#DoesTheGPLAllowDownloadFee\\_](http://www.gnu.org/licenses/gpl-faq.en.html#DoesTheGPLAllowDownloadFee_)> accessed 28.08.17 (‘Does the GPL allow me to charge a fee for downloading the program from my distribution site? Yes. You can charge any fee you wish for distributing a copy of the program.’)

<sup>974</sup> See above (n 99)

<sup>975</sup> See generally Section 2.3.1.A on the difficulty of quantifying the value of FOSS for the purposes of calculating damages.

FOSS licensor obtains corresponding economic value in various other forms, e.g. reputational benefits or reciprocal improvements to the code.<sup>976</sup> Ironically, it may be the case that Section 32(3) of the UrhG (the ‘Linux Clause’) serves as an argument for the proposition that the licensor has received ‘fair remuneration’ corresponding to the economic value of the copy even though the licence was granted free of charge.<sup>977</sup>

Finally, the response to the fourth question will depend on the acts of the initial licensee. There is certainly nothing preventing the initial licensee from deactivating or deleting their copy of FOSS on resale, however, satisfying the evidential burden in this regard may prove somewhat difficult without a system of notarial certificates.<sup>978</sup>

Taking all these findings, it is possible that, under the right conditions, the download of a program subject to the terms of a FOSS licence template may result in the exhaustion of rights in respect of that copy.<sup>979</sup> This would allow the licensee to make that exact copy available to a third party without requiring the authorisation of the right-holder. This inevitably raises some important questions for the FOSS licensing model: namely, can a FOSS licensor who makes their work available online control the subsequent retransmission of that work on the basis of their copyright; and, if not, then are the

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<sup>976</sup> E.g. the types of ‘economic value’ that common law scholars suggest may act as corresponding consideration for the grant of rights. See above (n 570)

<sup>977</sup> Section 32(3) UrhG. Discussed further below at Section 7.2.1.

<sup>978</sup> N.b. The Higher Regional Court of Munich held on remand that UsedSoft’s system of notarial certificates did not satisfy the evidential burden vis-à-vis the de-activation of copies, raising questions over what would be satisfactory. See Schneider, *The End of the UsedSoft Case and its Implications for “Used” Software Licences* (Osbourne Clark, 2015) <[www.osborneclarke.com/insights/the-end-of-the-usedsoft-case-and-its-implications-for-used-software-licences/](http://www.osborneclarke.com/insights/the-end-of-the-usedsoft-case-and-its-implications-for-used-software-licences/)> accessed 28.08.17.

<sup>979</sup> As will be discussed below, it is conceivable that the CJEU and the German courts may take a more teleological approach with respect to FOSS licences and digital exhaustion that could see them precluded on the basis that it would not serve the underlying function or purpose of Art.4(2).

restrictions in the FOSS licence enforceable against the immediate licensee and the subsequent acquirer(s) of a digital copy?

The answers to these questions are not straightforward. What is clear, however, is that FOSS licensors' ability to control the online transmission and use of their works online is potentially reduced by the CJEU's decision in *UsedSoft*. For example, if a licensee downloads a copy of GPL-covered work in exchange for a fee and subsequently decides to convey the verbatim copy to a third-party without observing the GPL's conditions (e.g. maintaining notices and disclosing corresponding source) while deleting their own copy, then the licensor, it seems, will not be able to assert a claim for copyright infringement against the initial licensee.<sup>980</sup> Thus, their ability to control the transmission of the copy through copyright will be curtailed by Section 69c(3) of the UrhG. With that said, the licensor may still be able to assert a contractual claim against the initial licensee for breaching the terms of the GPL's terms. However, in doing so, a court would have to assess whether those contractual terms were valid limitations on the licensee's freedom to redistribute the copy or whether they were unreasonable restraints on the free marketability of the work.<sup>981</sup> Indeed, as a 'purchaser' of the digital copy, the licensee may argue that the contractual restrictions conflict with their position under statutory law and are invalid under Section 307 of the BGB.<sup>982</sup>

Furthermore, FOSS licensors may lose their ability to enforce GPL restrictions against the subsequent acquirer(s) of the 'second-hand' copy. Pursuant to the first sale, a

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<sup>980</sup> Admittedly, the likelihood of all these criteria being satisfied is relatively low in the FOSS context.

<sup>981</sup> See, Higher Regional Court of Stuttgart, No. 2 U 49/11 (3.11.2011) – *Hörbuch-AGB*; Higher Regional Court of Hamburg, No. 5 W 35/13 9 (30.04.2013); Regional Court of Hamburg, No. 315 O 449/12 (25.10.2013); *Wandtke/Bullinger* (n 538) §69c para 38-41

<sup>982</sup> See generally, *Ibid*

subsequent acquirer may now download and run their copy without requiring a licence from the right-holder, relying instead on their status as a ‘lawful user’.<sup>983</sup> They may also retransmit the work to another party without needing to observe the GPL’s conditions provided they delete or deactivate their copy. Furthermore, where the initial licensee fails to preserve the GPL, then there may be no ‘direct licence’ with which the right-holder may assert contractual control over the subsequent acquirer. Indeed, it is conceivable that they may not even be aware that that the GPL conditions apply to their ‘second hand’ copy.<sup>984</sup>

In summary, we can see that the decision in *UsedSoft*, if extended, poses a threat to the continued enforceability of FOSS licence templates in the online context.<sup>985</sup> However, it is admittedly a very specific threat to the extent that there are certain conditions that must be met for exhaustion to occur. That most FOSS licensing relations do not easily satisfy the criteria established by the CJEU may come as relief to FOSS licensors, but the decision nevertheless raises general concerns for the FOSS licensing model. The decision certainly does little to assist FOSS licensing objectives. In this respect, the *UsedSoft* decision provides a clear example of how an attempt to promote the free marketability of works online in the interests of users may have the unintended consequence of destabilising a complementary licensing model that has as its *raison d’être* the promotion of those very

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<sup>983</sup> Section 69d(1) UrhG

<sup>984</sup> There is one further point to note vis-à-vis the position of the subsequent acquirer. In the subsequent litigation between *UsedSoft* and Oracle, the BGH issued a second judgment in which it was held that contractual terms in the initial licence contract could limit subsequent acquirers’ use of the work as ‘lawful acquirers’. This qualification, while significant in many respects, does not appear to alter the legal position of subsequent acquirer in the FOSS context as FOSS licences restrictions do not govern mere use of a work, i.e. they do not limit the initial licensee’s use in a way that would also limit the subsequent ‘lawful user’.

<sup>985</sup> Many have argued that the decision in *UsedSoft* is of limited significance in general given the software industry’s shift towards cloud and service-based models which ensure that users do not obtain a permanent copy, but merely receive access to the service through ongoing subscriptions; see, *Nicholson* (n 965)

objectives. This sentiment was captured perfectly by Dominik König's comment that 'FOSS communities are in danger of being left behind as the collateral damage of the first user-friendly decision of the [CJEU]'.<sup>986</sup>

Given these concerns, some have questioned whether the decision of the CJEU may somehow be limited under German law in so far as it applied to FOSS templates. For example, it was considered whether FOSS licences should be treated differently to proprietary licences given the expressed will of the legislature in Section 32(2) of the UrhG or, alternatively, whether applying exhaustion in light of its intended function and underlying principles might justify derogation in the case of FOSS.<sup>987</sup> As will be discussed in the following chapter, there are many ways in which legal systems may seek to reconcile these tensions and delineate boundaries between FOSS and proprietary licensing systems.<sup>988</sup>

## [6.2] United States

In the past decade or so, the US has also seen several of its own licensing developments that have the potential to undermine the enforceability of FOSS licence templates. While US courts have not gone so far as to recognise exhaustion in relation to the online distribution of software,<sup>989</sup> they have nevertheless tinkered with various other doctrinal

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<sup>986</sup> *König* (n 939) 123 ('Open Content-Communities liefern Gefahr, als Kollateralschäden einer zunächst verbraucherfreundlichen Entscheidung des Gerichtshofs zurückzubleiben, was durch die Annahme einer Sonderregelung verhindert würde.'). Also on the notion of 'collateral damage', see, Moon, *Collateral Damage to Open Source Model? CJEU reasoning in Usedsoft v Oracle* (1709 Blog, 11 June 2013) <<http://the1709blog.blogspot.co.nz/2013/06/collateral-damage-to-open-source-model.html>> accessed 28.08.17.

<sup>987</sup> *König* (n 939) 119-136

<sup>988</sup> See Chapter Seven.

<sup>989</sup> See, *Capitol Records v ReDIGI* (n 941)

levers within the legal framework relating to software licensing. As will be discussed, these developments also appear to be driven by concerns over the interests of users and competitors and generally seek to limit the maximalist trajectory of US copyright law. Three key developments will be discussed in this section: (i) shifting approaches to determining tangible copy ownership, (ii) recognition of substantive limitations on the creation of conditions, and (iii) a shift in the remedial landscape from property rules to liability rules. For each of these developments, it will be shown how the US courts, in their attempt to limit the powers of right-holders in the interests of users, simultaneously curtail the user-oriented objectives of FOSS licence templates.

### **[6.2.1] Tangible Copy Ownership – Sale vs. Licence**

As discussed in Chapter Five, US courts have traditionally adopted a comparatively laissez-faire approach when dealing with various questions concerning the exploitation of copyright. Certainly, when it comes to resolving the issue of copy ownership of tangible copies – i.e. determining whether there has been a ‘transfer of ownership’ for a copy within the meaning of 17 U.S.C. §106(3) – US courts have been known to largely defer to the parties’ own characterisation of the transaction.<sup>990</sup> The result has been that where right-holders make a representation to the court that they ‘licence’ tangible copies of their work instead of ‘selling’ them, then the court may simply accept their characterisation at face value, notwithstanding the economic realities of the transaction.

Addressing the question of tangible copy ownership is by no means inconsequential or insignificant. Indeed, it is material to determining, *inter alia*, whether a possessor of a

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<sup>990</sup> Although, as will now be discussed, there has been considerable divergence on the approach adopted by different circuits and courts in the US.

tangible copy may benefit from the statutory rights set out in 17 U.S.C. §109 and §117, i.e. the first sale right and the right to make copies as an essential step in the utilisation of the program, respectively.<sup>991</sup> By characterising the transfer of tangible copies of their work as being subject to a ‘licence’ and not ‘sale’, right-holders have been able to deny the possessor the benefit of these important statutory rights, thus retaining control over the possessor’s ability to use and redistribute the tangible copy.<sup>992</sup> While many have criticised this approach for the fact that it denies users their statutory rights and destabilises the carefully calibrated balance sought by congress in the public interest, it is nevertheless an approach that FOSS licensors have themselves relied on to ensure that they retain control over the distribution of copies of FOSS.<sup>993</sup> It should come as no surprise, then, that the efforts to develop an approach that gives greater weight to the interests of users may have the effect of limiting the enforceability of FOSS licence templates in certain circumstances. We will now examine in greater detail this fragmented and developing area of case law concerning the question of copy ownership and consider the ways in which certain strands of this jurisprudence may affect the continued enforceability of FOSS licence templates.

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<sup>991</sup> See, *Carver* (n 55) 1891; Rice, *Licensing the Use of Computer Program Copies and the Copyright Act First Sale Doctrine* (1990) 30 *Jurimetrics J.* 157

<sup>992</sup> See, *Step-Saver Data Sys. v. Wyse Tech.*, 939 F.2d 91, fn.7 (3d Cir. 1991) (providing a useful history of how the software industry came to ‘licence’ but not ‘sell’ copies to avoid the first-sale doctrine); *Kim* (n 897) 1103 (noting that ‘if software is sold and not licensed, the licensor’s ability to control unauthorized uses of its product is significantly curtailed; on the other hand, if software is licensed and not sold, the licensee’s rights under the agreement are unduly restricted.’)

<sup>993</sup> For reasons set out in Chapter Two.

### [6.2.1.A] A Cacophony of Case Law

US courts are surprisingly divided on the question of how to determine tangible copy ownership.<sup>994</sup> Even courts within the same circuit are known to employ different approaches when determining if a given transaction amounts to a ‘sale’ or a mere ‘licence’. This has given rise to what has been called a ‘confusing cacophony of judicial voices’ on the issue.<sup>995</sup> According to Brian Carver, the approaches taken by the US courts in this regard can be set out along a kind of continuum.<sup>996</sup> At one end, there are those decisions in which the court favours the form of the transaction over its substance. At the other end, there are those courts which focus on the substance over form. Between the two are a range of decisions in which the courts have considered both substance and form to varying degrees.

As noted, FOSS licensors have typically relied on the ability to contractually reserve title to the tangible copies of their works by simply stating that a copy is distributed subject to a ‘licence’.<sup>997</sup> To this end, the FOSS licensing model relies on courts adopting an approach that focuses on form over substance. As will be shown, the more recent developments in software jurisprudence – although still divided in many ways – indicate a willingness to look beyond labels to the substance of the transaction, with courts in some cases going willing to look beyond the four corners of the agreement. As will be discussed,

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<sup>994</sup> See generally, Longdin and Lim, *Inexhaustible Distribution Rights for Copyright Owners and the Foreclosure of Secondary Markets for Used Software* (2013) 44 IIC 541, 554

<sup>995</sup> *Ibid* 554

<sup>996</sup> Carver (n 55) fn.72; see also, Graves, *Who Owns a Copy?: The Ninth Circuit Misses An Opportunity to Reaffirm the Right to Use and Resell Digital Works* (2011) 2 *Cybaris Intell. Prop. L. Rev.* 45

<sup>997</sup> See Section 3.3 above.

these more recent developments may raise concerns for FOSS licensors seeking to retain control over the distribution and use of tangible copies as they are conveyed downstream.

*(i) Form over Substance*

One of the earliest instances of a US circuit court dealing with the question of copy ownership in relation to software was the Ninth Circuit's decision in *MAI Systems Corp. v Peak Computers*.<sup>998</sup> In this decision, the Court found that the party in possession of the copy did not qualify as an 'owner' purely because the agreement was referred to as a 'licence'. Notwithstanding the fact that this statement was made in a footnote to the judgment, the decision was cited and followed by some courts,<sup>999</sup> giving rise to what has been termed the 'magic words' approach.<sup>1000</sup> The approach is clearly on the extreme end of the spectrum in so far as it blindly prioritises form over substance.

A more moderate approach has been adopted by subsequent courts, however, that sees courts looking beyond the 'magic words' to the actual terms of the contract, stopping short of looking to the 'economic realities' of the transaction.<sup>1001</sup> In these cases, the courts interpret the terms of the agreement to determine whether the restrictions are intended to prevent ownership of the copy from passing; e.g. restrictions limiting certain actions that

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<sup>998</sup> *MAI Systems Corp. v Peak Computer* (n 298)

<sup>999</sup> *Microsoft Corp. v Harmony Computers & Electronics, Inc.* 846 F. Supp. 208 (E.D.N.Y. 1994); *Triad Systems Corp. v Southeastern Express Co.* 64 F.3d 1330 (9th Cir. 1995); *Microsoft Corp. v Software Wholesale Club, Inc.*, 129 F. Supp. 2d 995, 1008 (S.D. Tex. 2000); *Davidson & Assocs., Inc. v. Internet Gateway*, 334 F. Supp. 2d 1164, 1177-78 (E.D. Mo. 2004); *Wall Data Inc. v. L.A. County Sheriff's Department*, 447 F.3d 769 (9th Cir. 2006)

<sup>1000</sup> 'This extreme sub-variety of the Reservation of Title approach can be dubbed the "Magic Words" approach, because for these courts the magic words "we license not sell" ends the inquiry.' *Carver* (n 55) 1899. Many scholars criticised this approach for its conflation of the intangible copyright and the tangible copy, contrary to the express words of 17 U.S.C. §202.

<sup>1001</sup> *Carver* refers to this approach as the 'Agreement Controls Approach', *Carver* (n 55) 1905

one would otherwise expect to enjoy as owner of the copy.<sup>1002</sup> The well-known three-factor analysis put forward by the Ninth Circuit in *Vernor v Autodesk* is a good example of this more moderate formalistic approach.<sup>1003</sup> While the moderate approach adopted in *Vernor* can be viewed as a shift away from the more problematic aspects of the *MAI Systems* approach, it still raises concerns over imbalances in bargaining power and the undermining of expectations through boilerplate terms. These concerns have prompted courts and scholars to question whether a more holistic approach to resolving copy ownership is warranted.

**(ii) *Substance over Form***

At the other end of the continuum are those courts who have advanced the so-called ‘economic realities’ approach.<sup>1004</sup> This approach is characterised by a willingness to look beyond the four corners of the agreement to the actual substance of the transaction.<sup>1005</sup> While the approach has its origins in case law dating back to the 1970s,<sup>1006</sup> it has been applied in a handful of software cases over the years.<sup>1007</sup> Most recently, the Second Circuit in *Kraus v Titleserv, Inc.* adopted such an approach, arguing that the absence of ‘formal title’ in a copy could be outweighed by the evidence that the possessor nevertheless

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<sup>1002</sup> See, e.g., *DSC Communications Corp. v Pulse Communications, Inc.* 170 F.3d 1354; *Adobe Sys. V One Stop Micro, Inc.* 84 F. Supp. 2d 1086 (N.D.Cal 2000); *Novell Inc. v CPU Distributing, Inc.* No.H-97-2326, 2000 U.S. Dist. LEXIS 9975 (S.D. Tex. 2000)

<sup>1003</sup> *Vernor v. Autodesk*, 621 F.3d 1102 (9th Cir. 2010)

<sup>1004</sup> *Carver* (n 55) 1915-1920

<sup>1005</sup> *Ibid*

<sup>1006</sup> *United States v Wise*, 550 F.2d 1180 (9<sup>th</sup> Cir. 1977); 434 U.S. 929 (1977)

<sup>1007</sup> See, e.g., *Microsoft v DAK Industries*, 66 F.3d 1091 (9th Cir. 1995); *Datalex Ltd. v PSA Inc.*, No. 01-06482, 2003 U.S. Dist. LEXIS 27563 (C.D. Cal. Jan. 30, 2003); see also, *Lemley* (n 891) fn.15

exercised ‘sufficient incidents of ownership over the copy’.<sup>1008</sup> The argument often put forward in support of this approach is that it ensures that right-holders cannot undermine the statutory position of those who might, given the substance of the transaction, consider themselves legitimately entitled to certain expectations as owners of the copy.<sup>1009</sup> In this respect, it is often characterised as a pro-user in nature given that it limits the powers of right-holders and upholds the balance of interests set by congress through the Copyright Act.<sup>1010</sup>

### **[6.2.1.B] Impact on the Enforceability of FOSS Licences**

Pending clarification from the US Supreme Court, there remains a degree of uncertainty as to how US courts might approach the task of resolving the question of tangible copy ownership.<sup>1011</sup> As a result, it is unclear whether and under what conditions the distribution of a tangible copy of FOSS may be considered a ‘transfer of ownership’ for the purposes of 17 U.S.C. §109 and §117. What is clear, however, is that the more scrutiny that US courts give to this question, the less likely it is that the right-holders can rely on their own characterisation of the transaction. In this respect, the approaches adopted by the Second Circuit and Ninth Circuit in *Kraus* and *Vernor* respectively have the potential to challenge

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<sup>1008</sup> *Kraus v Titleserv*, 402 F.3d 119 (2d Cir. 2005) 123-124

<sup>1009</sup> Even more ‘pro-user’ in nature is the ‘perpetual possession approach’ which singles out the criterion of perpetual possession as the decisive factor in establishing a transaction as a ‘sale’; see, e.g. *UMG Recordings Inc. v Augusto*, 588 F.Supp.2d 1055 (C.D. Cal. 2008)

<sup>1010</sup> See, *Graves* (n 996) 70

<sup>1011</sup> While the Supreme Court has not directly addressed the question of tangible copy ownership, it recently held that even a *conditional sale* will exhaust patent rights in a product regardless of the restrictions or conditions that the patentee purports to impose; see, *Impression Products Inc., v Lexmark Int’l Inc.*, 581 U.S. \_\_\_\_ (2017)

one of the central pillars of the FOSS licensing model; namely, that the software is licensed and not sold.

For example, if a court were to follow the ‘economic realities’ approach as set out by the Second Circuit in *Kraus v Titleserv*, it is possible that the recipient of a tangible copy of FOSS may be deemed the owner of that copy.<sup>1012</sup> Depending on the circumstances, the licensee may point to a range of factors that serve as ‘sufficient incidents of ownership’ with respect to their copy of FOSS.<sup>1013</sup> These may include the following: (i) payment of a one-off sum in exchange for the copy, (ii) possession of the copy without any restrictions on use, (iii) the ability to discard or destroy the copy at will, and (iv) no obligations to return the copy at any point in the future (i.e. perpetual possession).<sup>1014</sup> Taking these ‘economic realities’ into account, the court may well find that the distribution of a tangible copy of FOSS amounts to a ‘transfer of ownership’, notwithstanding assertions to the contrary found in the licence text. As a result, the owner would then be able to redistribute that copy in breach of the licence restrictions without infringing the author’s distribution right.

Even the more deferential approach adopted by the Ninth Circuit in *Vernor v Autodesk* raises concerns over the question of copy ownership in relation to FOSS.<sup>1015</sup> As noted above, the Ninth Circuit’s three-factor test set out in *Vernor* can be characterised as a shift away from the *MAI Systems* approach towards a slightly more rigorous form of contractual interpretation. Robert Gomulkiewicz argues that under this more rigorous

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<sup>1012</sup> *Kraus v Titleserv* (n 1008)

<sup>1013</sup> *Ibid* 123-125

<sup>1014</sup> *Ibid*; see also, *UMG v Augusto* (n 1009)

<sup>1015</sup> *Vernor v Autodesk* (n 1003)

three-factor analysis, FOSS licences may not qualify as licences, but instead be deemed sales.<sup>1016</sup> He highlights how the written terms of FOSS templates grant unrestricted permissions to use the software and have at their heart the objective of free transferability; features that, according to the Ninth Circuit, are not indicative of any contractual intent to reserve title to the copy.<sup>1017</sup> The basic flaw in the *Vernor* test, according to Gomulkiewicz, ‘is that it assumes software licences only grant fewer rights than a first sale would provide’.<sup>1018</sup> Indeed, the test does not appear sophisticated enough to entertain the possibility right-holders may wish to grant a very broad set of rights while at the same time reserving title in the tangible copy.<sup>1019</sup> Thus, under the *Vernor* test too, the licensee may be able to redistribute the copy without infringing the author’s distribution right.

In summary, the growing tendency of US courts to look beyond labels or ‘magic words’ is indicative of a push-back against the power of right-holders to unilaterally characterise the transaction. Irrespective of whether courts look to the ‘economic realities’ of the transaction or adopt a more rigorous form of contractual interpretation, right-holders can no longer reserve title to copies simply by calling the transaction a ‘licence’. While this overall shift may be driven by a desire to ensure greater balance between the interests of right-holders and users, it once again has the effect of undermining the enforceability of FOSS licence restrictions against downstream parties.<sup>1020</sup> With that said, these concerns should not be overstated. Changes in the software industry over the past decade have seen

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<sup>1016</sup> Gomulkiewicz, *Enforcement of Open Source Software Licenses: The MDY Trio's Inconvenient Complications* (2011) 14 Yale J.L. & Tech. 106, 122

<sup>1017</sup> *Ibid*

<sup>1018</sup> *Ibid*

<sup>1019</sup> *Ibid* 123

<sup>1020</sup> Undermining the specific enforcement objectives, see Section 2.3 above.

distribution of works move online, part of a trend towards dematerialisation that has seen a significant decline in the use and distribution of tangible copies.<sup>1021</sup> This in turn mitigates concerns over the question of copy ownership and control. Furthermore, given that US courts have emphatically rejected the notion of ‘digital exhaustion’ under US law, FOSS licensors need not worry about the possibility of losing control of their work in the online environment.<sup>1022</sup>

### [6.2.2] Substantive Limitations on Licence Conditions

As discussed in Chapter Four, the CAFC in *Jacobsen* effectively held that parties were free to designate any licence term as a condition provided their intention to do so was sufficiently clear. Had the CAFC adopted an approach in line with that of the German courts – i.e. applying criteria similar to the ‘distinctive market’ test – then outcome of the decision may have been very different, to the potential detriment of FOSS licensing objectives.<sup>1023</sup> The fact that US courts adopted a relatively laissez-faire approach in this regard proved integral to the realisation of FOSS licensing objectives under US law. However, as discussed in Chapter Five, this approach also paved the way for proprietary licensors in the commercial or consumer context to engage in abusive behaviour by seeking onerous remedies, leveraging copyright and binding third parties.<sup>1024</sup>

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<sup>1021</sup> See, Perzanoski & Schultz, *Digital Exhaustion* (2011) 58 UCLA L. REV. 889 (discussing the marginalisation of the first-sale doctrine given the emergence of digital networks). Furthermore, the digital-download model has largely been replaced by service-based models (e.g. cloud computing services and content streaming) which raises further questions over the relevance of exhaustion even in the digital context.

<sup>1022</sup> *ReDigi v Capitol Records* (n 941). The Second Circuit is due to hear an appeal in 2017 so there may yet be developments to come in this area.

<sup>1023</sup> For discussion on the ‘distinctive market’ test, see Section 5.1.1.B(i) above.

<sup>1024</sup> See Section 5.1.1.B(ii) above.

In recent years, there has been something of a reactionary movement away from this laissez-faire approach. In addition to there being growing calls within scholarship for the recognition of substantive limitations,<sup>1025</sup> the Ninth Circuit's decision in *MDY Industries v Blizzard Entertainment* signals an attempt by US courts to articulate such a limitation.<sup>1026</sup> This section examines the decision in *MDY Industries v Blizzard* and considers the impact it may have on the continued enforceability of FOSS licence templates in US law.

#### [6.2.2.A] *MDY Industries v Blizzard Entertainment*

The case of *MDY Industries v Blizzard* involved a dispute between the developer of World of Warcraft, a massive multiplayer online role-playing game (MMORPG), and a company that developed and sold a 'bot' program that allowed players to cheat in violation of the terms of the EULA and Terms of Use (ToU).<sup>1027</sup> Blizzard argued that MDY Industries was liable for contributory infringement for having sold the software used by end-users to breach the terms. In response, MDY Industries argued that there was, at most, a contractual violation by the end-user and no primary copyright infringement on which to pin contributory infringement. The Court of Appeals for the Ninth Circuit then had to consider

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<sup>1025</sup> See generally, *Mulligan* (n 780); *Mulligan* (n 854); *Van Houweling* (n 284); *Van Houweling* (n 284); *Elkin-Koren* (n 284); *Ard* (n 205) 345-360; See also, Fagundes, *Property Rhetoric and the Public Domain* (2010) 94 Minn. L. Rev. 652 (discussing how property rhetoric and doctrine have been mobilised to combat copyright maximalism and the concerns over 'servitudes')

<sup>1026</sup> *MDY Industries, LLC v. Blizzard Entertainment, Inc*, 629 F.3d 928 (9th Cir. 2010)

<sup>1027</sup> A similar case was litigated in Germany. In 2016, the BGH handed down two separate judgments upholding Blizzard's claims for copyright infringement and unfair competition. In the copyright case, the BGH found that the defendants only had a licence for private use, but had used the World of Warcraft software for commercial purposes. Thus, reproductions made in the process of developing the 'bots' fell outside the scope of the limited grant (i.e. Section 31(1) UrhG) and the defendant could not rely on Section 69d(3) given that the game was a complex work with non-software elements (e.g. audio-visual works). See, Federal Court of Justice, I ZRR 25/15 (06.10.16) – *World of Warcraft*

whether the copy had been sold or licensed to the user and, if the latter, whether the terms breached were conditions or mere covenants to the licence. Applying the *Vernor* test (see above), the Court found that the users merely licensed their copies and that, as such, any acts that fell outside the scope of the licence would constitute an infringement.<sup>1028</sup> The Court then held that, for a condition to limit the scope of the licence and therefore be enforceable in copyright, ‘there must be a *nexus between the condition and the licensor’s exclusive rights of copyright*’ (emphasis added).<sup>1029</sup>

The Ninth Circuit’s notion of a ‘nexus requirement’ clearly serves to limit the range of conditions that can be created by the licensor.<sup>1030</sup> It achieves this by tying the enforceability of a condition to its proximity to the exclusive rights set out under 17 U.S.C. §106; an approach that some scholars have likened to the ‘touch and concern’ doctrine that applies to land servitudes in the context of real property law.<sup>1031</sup> As for what qualifies as a sufficient ‘nexus’ in this regard, the Ninth Circuit failed to provide any clear guidance. The Court ultimately found that Blizzard’s restriction prohibiting the use of bots did not pass the nexus test, but rather surprisingly noted a possible nexus between the restriction and the exclusive reproduction right.<sup>1032</sup> The Court did, however, make one notable *sui generis* exception to the ‘nexus’ requirement, stating that conditions that require the payment of money could be enforceable in copyright.<sup>1033</sup> Indeed, the Court were clearly concerned that

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<sup>1028</sup> *Ibid* 938

<sup>1029</sup> *Ibid* 941

<sup>1030</sup> In this respect, certain parallels can be drawn between the ‘nexus requirement’ and the German ‘distinctive market’ requirement, see above (xxx). Both limit the range of possible licence conditions in the interests of reducing information costs, see generally *Mezzanotte* (n 311)

<sup>1031</sup> See, *Van Houweling* (n 284) 1077

<sup>1032</sup> *MDY Industries v Blizzard* (n 1026) 939; see, *Ard* (205) 347 fn. 172

<sup>1033</sup> *Ibid* fn.4 (‘A licensee arguably may commit copyright infringement by continuing to use the licensed work while failing to make required payments, even though a failure to make payments otherwise

the nexus requirement would ‘foreclose the common practice of conditioning copyright licences on payment’.<sup>1034</sup>

Overall, the Ninth Circuit’s decision in *MDY Industries v Blizzard* has drawn criticism for its failure to provide coherent guidance with respect to its ‘nexus’ requirement.<sup>1035</sup> Notwithstanding these criticisms, the decision can be viewed as a first step towards acknowledging an underlying need for substantive limitations on the creation of licence conditions. Indeed, the Court explicitly acknowledged that allowing right-holders to ‘designate any disfavoured conduct during software use as copyright infringement by purporting to condition the license on abstention from the disfavoured conduct [...] would allow software copyright owners far greater rights than Congress has generally conferred on copyright owners’.<sup>1036</sup> In this light, the *MDY* decision can be understood as a response to the laissez-faire approach exemplified by the CAFC’s decision in *Jacobsen* and the concerns it has raised vis-à-vis substantive overreach.<sup>1037</sup>

### **[6.2.2.B] Impacts on the Enforceability of FOSS Licences**

The consensus amongst US scholars is that the decision in *MDY Industries v Blizzard* poses as a threat to the enforceability of FOSS licences or, at the very least, is an ‘inconvenient complication’ for the FOSS licensing model.<sup>1038</sup> The Ninth Circuit’s nexus requirement

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lacks a nexus to the licensor’s exclusive statutory rights. We view payment as *sui generis*, however, because of the distinct nexus between payment and all commercial copyright licenses, not just those concerning software.’)

<sup>1034</sup> Kenneally, *Commandeering Copyright* (2012) 87 Notre Dame L. Rev. 1179, 1224-1225

<sup>1035</sup> *Ard* (n 205) 347; *Van Houweling* (n 284) 1083, *Kenneally* (n 1034) 1224

<sup>1036</sup> *MDY Industries v Blizzard* (n 1026) 941

<sup>1037</sup> See Section 5.2.1.A(ii) above.

<sup>1038</sup> *Gomulkiewicz* (n 1016) 110

threatens to turn many FOSS licence template restrictions into mere contractual covenants, notwithstanding the fact that such restrictions are often drafted with a clear intention to the contrary.<sup>1039</sup> Consider, for example, Section 1 of the Artistic Licence which requires the licensee to preserve all copyright notices when distributing verbatim copies of the work.<sup>1040</sup> While the CAFC in *Jacobsen* held this provision to be a condition, it is highly questionable whether the same outcome would be achieved applying the Ninth Circuit's test. This is because the provision can be read as making the licence conditional on the provision of *attribution* which is not recognised as an exclusive right of the owner.<sup>1041</sup> Read in this manner, the licensor would likely struggle to establish the necessary 'nexus' between the condition and the exclusive rights.<sup>1042</sup>

Indeed, FOSS licensors may encounter similar difficulties when trying to enforce a whole range of key FOSS licence template restrictions as conditions. As Gomulkiewicz points out, copyleft restrictions, as well as restrictions requiring the preservation of warranty disclaimers and limitations of liability, are both likely to fail the Ninth Circuit's test for lack of a sufficient nexus to the exclusive rights of copyright.<sup>1043</sup> The overall effect of the *MDY* decision appears to be the rendering of fundamental FOSS restrictions as mere covenants that are enforceable in contract law, contrary to the express intentions of the drafters. Thus, the decision in *MDY* poses as a serious threat to the realisation of the enforcement objectives of FOSS licence templates under US law.

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<sup>1039</sup> See Section 3.1.2.D

<sup>1040</sup> *Artistic License* (n 544)

<sup>1041</sup> 17 U.S.C. §106

<sup>1042</sup> *Gomulkiewicz* (n 1016) 131; *Ard* (n 205) 350

<sup>1043</sup> *Gomulkiewicz* (n 1016) 129

That the *sui generis* exception carved out by the Ninth Circuit recognises only monetary payments appears to overlook the important role that conditions play in FOSS licence templates. Gomulkiewicz criticises this exception for failing to acknowledge the various forms of consideration which the licensor might seek on condition of the grant of rights (i.e. non-monetary consideration).<sup>1044</sup> Certainly, the *sui generis* exception appears to favour commercial licensing models over non-commercial models without any clear justification in US copyright law or policy for such a distinction to be made.<sup>1045</sup>

In summary, the decision in *MDY v Blizzard* represents yet another attempt by US courts to counter the maximalist tendencies of copyright law. This development, like so many others discussed in this chapter, has the unintended consequence of threatening the enforceability of FOSS licences.<sup>1046</sup> With that said, it is possible to envisage a court adopting a more purposive approach to *MDY v Blizzard* that could see FOSS licence restrictions satisfy the nexus requirement. For example, if a court were to read the Ninth Circuit's decision as an affirmation of federal copyright policy (i.e. that conditions must relate to the exclusive rights conferred by Congress or they otherwise risk obstructing the aims of the federal statute), then FOSS licensors may appeal to the underlying policy of the federal copyright law in support of their restrictions being conditions.<sup>1047</sup> Adopting this

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<sup>1044</sup> *Gomulkiewicz* (n 1016) 131

<sup>1045</sup> *Ibid* ('Neither contract nor copyright policy justifies favoring monetary consideration over non-monetary consideration.')

<sup>1046</sup> However, the effects of this decision have been so far limited to the Ninth Circuit. See, Maggs, *The Uncertain Legal Status of Free and Open Source Software in the United States* in Metzger (n 10) 481 (noting that the 'difference between the Federal Circuit and the Ninth Circuit could be regarded as a mere difference in interpretation of state contract law and thus as not suitable for resolution by the Supreme Court.')

<sup>1047</sup> This approach is analogous to that taken in the 17 U.S.C. §1201 case law where US courts held that a claim for the circumvention of access controls (i.e. TPM) would only stand if there was a 'nexus' between the access control and copyrighted material. The courts argued that extending the scope of the provision further would frustrate the aims of the federal statute and the balance set by Congress.

purposive approach, a court may find that upholding FOSS licence restrictions as ‘conditions’ is essential to the viability of the FOSS licensing model which in turn promotes creativity and innovation in accordance with the aims of the federal statute.<sup>1048</sup>

Certainly, in response to the decision in *MDY v Blizzard*, several US scholars have sought to articulate alternative tests for limiting the enforceability of licence conditions. Molly Shaffer van Houweling makes a similar argument to the above by proposing that copyright licensors should be required to demonstrate a ‘*purposive nexus*’ between the condition and the exclusive rights.<sup>1049</sup> Under this purposive test, a licence term would be enforceable in copyright ‘only where its enforcement would promote the *purposes* of the copyright holder’s exclusive rights’.<sup>1050</sup> Alternatively, some scholars have argued for the substantive standardisation of licence conditions; a proposal that would effectively serve as a *numerus clausus* principle for licence conditions.<sup>1051</sup> Such an approach would certainly provide certainty where others were lacking, however, it may, depending on where the line is drawn, act to exclude FOSS licence restrictions and future licensing innovations yet unknown.<sup>1052</sup> Overall, the Ninth Circuit’s decision in *MDY* succeeded in fuelling a wave of scholarship on the question of substantive limitations on licence conditions; a question that

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See, *Chamberlain Group, Inc. v Skylink Techs., Inc.* 381 F.3d 1178 (Fed. Cir. 2004); *Lexmark Int’l Inc. v. Static Control Components, Inc.* 387 F.3d 522 (6<sup>th</sup> Cir. 2004)

<sup>1048</sup> As will be discussed in the following chapter, this kind of purposive reasoning can play an important role in reconciling the tensions that arise as a result of building a system with a system.

<sup>1049</sup> *Van Houweling* (n 284) 1083-1084

<sup>1050</sup> *Ibid* 1083

<sup>1051</sup> *Mulligan* (n 780) 275-284; *Mulligan* (n 854); See also, Gillette, *Pre-Approved Contracts for Internet Commerce* (2005) 42 Hous. L. Rev. 975, 983 (arguing for a white list of approved ‘licence conditions’).

<sup>1052</sup> *Ard* (n 205) 349 ff. (discussing the importance experimentation and innovation in licensing)

threatens to strike at the very heart of FOSS licensing theory as expressed with regard to US law.

### **[6.2.3] Shifts in the Remedial Landscape**

The final development that threatens the enforceability of FOSS licences under US has been touched upon already in this thesis. If we cast our minds back to Chapter Four, we may recall that the *Jacobsen* litigation concluded in a rather unsatisfactory manner with Jacobsen, the claimant, being denied a preliminary injunction by the District Court, notwithstanding a finding of copyright infringement.<sup>1053</sup> As was discussed, after the CAFC's decision, the law governing the legal standard by which US courts determined whether an injunction should be issued had changed.<sup>1054</sup> This change – triggered by the landmark decision in *eBay v MercExchange* – can be viewed as part of a broader shift in the law on remedies; a shift that views remedial discretion as an effective lever with which to again temper concerns over the maximalist trajectory of intellectual property law.<sup>1055</sup> This section considers this broader shift and the impact that it has had on the realisation of FOSS licence objectives.

#### **[6.2.3.A] *eBay v MercExchange***

The 2006 decision in *eBay v MercExchange* is well-documented and discussed in the literature. The Supreme Court held that the patent-holder claimants were not automatically

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<sup>1053</sup> See Section 4.2.2.C above.

<sup>1054</sup> *Ibid*

<sup>1055</sup> See generally, Lemley and Weiser, *Should Property or Liability Rules Govern Information?* (2007) 85 Tex. L. Rev. 783; Afori (n 699); Samuelson and Bebenek, *Why Plaintiffs Should Have to Prove Irreparable Harm in Copyright Preliminary Injunction Cases* (2011) 6 ISJLP 67

entitled to a final injunction having established a claim for infringement on the merits.<sup>1056</sup> The Court reaffirmed that injunctive relief is an ‘extraordinary remedy’ and that it must be granted ‘in accordance with the principles of equity’.<sup>1057</sup> This led the Court to hold that the traditional four-factor analysis must be applied on a case-by-case basis and that there would no longer be a presumption that irreparable harm would occur absent an injunction.<sup>1058</sup> While the rejection of the presumption of irreparable harm and the reaffirmation of equitable principles came as a direct response to the growing concerns over the abusive enforcement of patent rights by non-practising entities (NPEs) or ‘patent trolls’, it can also be viewed as a more general response to the growing concerns over the proprietary approach to intellectual property remedies.<sup>1059</sup>

For several decades prior to the decision in *eBay*, courts would routinely award injunctive relief almost as a matter of right, only nominally applying the four-factor analysis that had long guided the courts in exercising their equitable discretion.<sup>1060</sup> Courts typically justified this approach by citing the proprietary nature of intellectual property or the public interest in the enforcement of intellectual property rights.<sup>1061</sup> Not only did this practice contrast sharply with the historical understanding of injunctions as extraordinary

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<sup>1056</sup> *Ebay Inc. v Mercexchange* (n 244)

<sup>1057</sup> *Ibid* 1839-1840

<sup>1058</sup> *Ibid*

<sup>1059</sup> See, e.g. Phillips, *Ebay's Effect on Copyright Injunctions: When Property Rules Give Way to Liability Rules* (2008) 24 Berkeley Tech. L.J. 405

<sup>1060</sup> Lemley, *Did eBay Irreparably Injure Trademark Law?* (Stanford Public Law Working Paper No. 2808677, 2016) 4 <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2808677](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2808677)> accessed 28.08.17 (noting that ‘[b]etween 1984 and 2006 [...] the Federal Circuit never once denied an injunction to a prevailing patentee’.)

<sup>1061</sup> See generally, Gomez-Arostegui, *What History Teaches Us About Copyright Injunctions and the Inadequate-Remedy-At-Law Requirement* (2008) 81 S. Cal. L. Rev. 1197; see also, *Clayes* (n 226)

equitable remedies,<sup>1062</sup> but it increasingly became apparent that, in certain circumstances, a strict property rule was problematic.<sup>1063</sup> Certainly, the Supreme Court in *eBay* noted that the adherence to a strict property rule in the software context could have damaging consequences, particularly given the growing number of patents of suspect validity and the trend of wielding patents to ‘hold-up’ and unduly leverage negotiations.<sup>1064</sup> Thus, the Supreme Court rejected a general proprietary rule, asserting that the existence of a right to exclude does not dictate the remedy for a violation of that right.

While the Supreme Court did not give any indication that its judgment was to trigger a fundamental shift in U.S. remedies law, it nevertheless had this effect.<sup>1065</sup> Following the Supreme Court’s decision, several lower federal courts followed suit in applying the equitable four-factor analysis to patent disputes without the conventional presumption of irreparable harm.<sup>1066</sup> This ruling then found its way into other areas of intellectual property, including copyright and trademark,<sup>1067</sup> before diffusing into the more general law on remedies.<sup>1068</sup>

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<sup>1062</sup> *Klewin* (n 658) 2115

<sup>1063</sup> See above (n 1059)

<sup>1064</sup> *eBay v Mercexchange* (n 244) 1842 (per Justice Kennedy)

<sup>1065</sup> *Gregan, The Supreme Court’s Accidental Revolution? The Test for Permanent Injunctions* (2012) 112 *Colum. L. Rev.* No.2 203 (discussing how the *eBay* decision launched a ‘revolution in the law of equitable remedies’)

<sup>1066</sup> *IMX, Inc. v. LendingTree, LLC*, 469 F. Supp. 2d 203, 224 (D. Del. 2007); *Smith & Nephew, Inc. v. Synthes (U.S.A.)*, 466 F. Supp. 2d 978, 982 (W.D. Tenn. 2006). However, there was still some confusion as to whether the standard had been changed, see, *Abbott Laboratories v. Andrx Pharmaceuticals, Inc.* 452 F.3d 1331 (Fed. Cir. 2006).

<sup>1067</sup> *Salinger v. Colting*, 607 F.3d 68 (2d Cir. 2010) (re: copyright); see also, *Liu, Copyright Injunctions After eBay: An Empirical Study* (2012) 16 *Lewis & Clark L. Rev.* 215 (documenting the developments in copyright law). *Herb Reed Enterprises v. Florida Entertainment Management*, 736 F.3d 1239 (9th Cir. 2013) (re: trademarks)

<sup>1068</sup> See, *Gregan* (n 1065)

Overall, the subsequent effect of the *eBay* decision has been very clear in practical terms for copyright claimants. They must now satisfy a heightened standard of proof to obtain injunctive relief for copyright infringement. In this respect, the development feeds into the broader trend in licensing jurisprudence that has been discussed in this chapter, limiting the power of right-holders and providing the judiciary with yet another tool to address concerns over the laissez-faire approach to licensing.<sup>1069</sup> It is no surprise then that, like similar developments, it has the capability to undermine FOSS licensing objectives.

### **[6.2.3.B] Impact on the Effectiveness of FOSS Licences**

As discussed in Chapter Two, FOSS licence templates were drafted with the objective of ensuring that copyright claims, instead of mere contractual claims, arise on licensee violation. The rationale for this is relatively straightforward: contractual remedies were deemed to be inadequate and undesirable, whereas copyright law readily provided exclusionary remedies essential for addressing the specific harms of FOSS violations.<sup>1070</sup> Underpinning this was the assumption that a successful copyright claim (or a claim that showed a likelihood of success on the merits) would automatically give rise to a presumption of irreparable harm, meaning that injunctive relief would issue almost as of right.<sup>1071</sup> Prior to the 2006, there was little reason to question this assumption.<sup>1072</sup> However,

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<sup>1069</sup> See, Carrier, *Limiting Copyright Through Property in Howe and Griffiths* (n 228) 185-204 (discussing the trend in US copyright scholarship that seeks to limit the powers of right-holders through property doctrine)

<sup>1070</sup> See Section 2.3.1.A.

<sup>1071</sup> See Section 2.3.1.B(ii).

<sup>1072</sup> See, *Klewin* (n 658) 2125

the decision in *eBay v MercExchange* and the developments that followed clearly undermined this position and – by extension – the objectives of FOSS licences.

The concerns raised by this development are far from hypothetical or academic. Indeed, as discussed in Chapter Three, the removal of the presumption of irreparable harm has already had a material effect on the enforceability of FOSS licence templates, leading the District Court in *Jacobsen* to deny the claimant their motion for preliminary injunctive relief notwithstanding their successful appeal to the CAFC.<sup>1073</sup> The District Court considered whether Jacobsen was likely to suffer irreparable harms in the absence of preliminary relief, concluding that the harms alleged were too ‘speculative or potential’.<sup>1074</sup> The District Court concluded that to satisfy the new heightened standard of proof, a FOSS claimant would have to show likelihood of suffering harms that are ‘real, imminent or significant’.<sup>1075</sup> Similarly, Ximpleware was denied injunctive relief notwithstanding having established an infringement claim on the merits for the violation of the GPL. All of this ultimately raises the question of whether, and under what circumstances, a FOSS licensor would be able to demonstrate a likelihood of suffering irreparable harm such that it would satisfy the equitable four-factor analysis for injunctive relief.

The harms resulting from the violation of a FOSS licence can vary significantly depending on the circumstances. Where the FOSS licensor is engaged in some sort of commercial activity with their code (e.g. dual-licensing, offering related services or products), then the licensor may be able to establish loss that is pecuniary or financial in nature. In such circumstances, they may be able to obtain reparable damages that preclude

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<sup>1073</sup> *Jacobsen v Katzer* (n 657) 938

<sup>1074</sup> *Ibid* 937

<sup>1075</sup> *Ibid*

injunctive relief. However, given the ancillary nature of these commercial models, it could prove difficult to estimate the pecuniary loss, thus rendering damages inadequate and the harms irreparable.<sup>1076</sup> The licensor may also point to loss of reputation, the loss of users and/or the loss of market share, all of which may cause financial loss that is equally difficult to reduce to a pecuniary figure.<sup>1077</sup> Finally, as discussed in Chapter Two, there are certain intrinsic harms suffered from FOSS licence violations that cannot (or perhaps should not) be captured by any quantitative measure, e.g. harms to the individual, to the relations of community, and to the interest of the broader public.<sup>1078</sup> While this may convince courts to find compensatory remedies inadequate, it may also lead them to view the harms as ‘speculative or potential’ in nature, i.e. too diffuse or complex to be ‘real, imminent or significant’.<sup>1079</sup> Accordingly, FOSS claimants appear to be caught in the middle.

There are, of course, arguments that could be made in support of FOSS claimants obtaining injunctive relief under the *eBay* standard.<sup>1080</sup> For example, where a claimant failed to demonstrate a likelihood of irreparable harm, it could be argued that an injunction should be granted nevertheless. Here, the claimant could argue that the four-factor analysis in *eBay* is not intended to set out independent criteria that the claimant must satisfy individually, but instead as a set of factors that are to be weighed against each other, providing the court with guidelines for exercising its equitable discretion.<sup>1081</sup> In this

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<sup>1076</sup> See Section 2.3.1.B(i)

<sup>1077</sup> *Ibid*

<sup>1078</sup> FOSS licensors should be wary of trying to quantify damages as a quantitative measure will merely price the cost of non-compliance instead of prohibiting it in future. See (n 205)

<sup>1079</sup> *Jacobsen v Katzer* (n 657) 937

<sup>1080</sup> See, *Platt, Chen and Newton* (n 236)

<sup>1081</sup> See discussion below at (n 1086)

respect, a lack of evidence of irreparable harm may not be dispositive to the grant of injunctive relief, but would merely be something to weigh against the other factors.<sup>1082</sup> Adopting this approach, a court may find that the public interest in ensuring that the FOSS licensors have meaningful remedies significantly favours the grant of an injunction, thus outweighing the lack of evidence of irreparable harm. Certainly, given the role that FOSS plays in promoting innovation and creativity, it would be contrary to public interest to deny the FOSS claimants the remedies that are vital to ensuring the licensing model's effectiveness.<sup>1083</sup> With that said, it remains to be seen whether a court would be open to these arguments. Aside from the District Court's decision in *Jacobsen*, there hasn't been a recent decision in which a US court has thoroughly considered these issues as they relate to FOSS licence enforcement.<sup>1084</sup>

It is worth noting that in recent years, as the dust has settled following the *eBay* decision, US scholars have made similar arguments to the one above, questioning whether the Supreme Court's decision in *eBay* has been correctly interpreted and applied by lower courts in relation to IP disputes. Some have argued that subsequent courts have incorrectly elevated irreparable harm from one factor among many to a dispositive requirement for the grant of injunctive relief.<sup>1085</sup> This elevation of irreparable harm to a 'gatekeeper requirement' is seen by some to unfairly prejudice IP claimants who may struggle to

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<sup>1082</sup> *Ibid*

<sup>1083</sup> See Section 2.3.1.B(i)

<sup>1084</sup> The District Court's decision in *Jacobsen* came very shortly after the decision in *Winters* so it can be classified as an early post-*eBay* decision. Whether courts would now take a different approach in dealing with FOSS claimants given the passage of time remains to be seen. With that said, the decision to deny injunctive relief in *Ximpleware v Versata* suggests that FOSS licensors still face difficulties in this regard, see (n 693)

<sup>1085</sup> See, e.g. *Lemley* (n 1060) (discussing the application of the *eBay* ruling to trademark cases)

provide sufficient proof or evidence of the harms due to circumstantial factors.<sup>1086</sup> For example, Mark Lemley notes how the focus on irreparable harm does not account for some of the fundamental differences between different forms of IP.<sup>1087</sup> He argues that trade mark holders are at risk of being deprived of injunctive relief given the difficulties they face in providing evidence of the harms of infringement (i.e. consumer confusion).<sup>1088</sup> In response to these concerns, he argues that the four-factor analysis was never meant to be read as a mandatory set of criteria, but was intended to guide courts in exercising their discretion.<sup>1089</sup> As such, Lemley concludes that courts should be free to attribute weight to certain factors as they see fit on a case-by-case basis in light of the demands of equity.<sup>1090</sup>

Finally, it could be argued that the *eBay* decision was not intended as a grand reaffirmation of equitable discretion, but was merely responding to the growing concerns over the threats of non-practising entities (i.e. patent trolls).<sup>1091</sup> Read in this light, the decision presents itself as one that is driven primarily by an underlying concern over innovation policy. Thus, if a court were to apply *eBay* ruling in a purposive manner, then it is possible that the court might nevertheless find that a presumption of irreparable harm is warranted in the case of FOSS-based claims. Indeed, maintaining the presumption for FOSS claimants would ensure that meaningful remedies would be available to redress the

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<sup>1086</sup> *Ibid* 10

<sup>1087</sup> *Ibid* 22

<sup>1088</sup> *Ibid*; See also, Sanchez, *The Irreparably Harmed Presumption? Why the Presumption of Irreparable Harm in Trademark Law Will Survive eBay and Winter* (2011) B.Y.U. L. Rev. 535; Karol, *Trademark's eBay Problem* (2016) 26 Fordham Intell. Prop. Media & Ent. L.J. 625

<sup>1089</sup> Lemley (n 1060) 9-10

<sup>1090</sup> See e.g., *Judge v Quinn*, 612 F.3d 537, 546 (7<sup>th</sup> Cir. 2010) ('the greater the likelihood of success on the merits, the less net harm the injunction must prevent in order for preliminary relief to be warranted.')

<sup>1091</sup> See, *eBay v MercExchange* (n 244) (per Justice Kennedy's opinion in which he expressly identifies these concerns as determinative factors in his decision to deny injunctive relief)

specific harms suffered, thus providing certainty for those who wish to participate in FOSS development and in turn promoting innovation. As will be discussed further in the following chapter, these kinds of purposive arguments may be used effectively by courts to reconcile the tensions that arise between the FOSS licensing model and the broader licensing framework.

### **[6.3] Chapter Summary**

Whereas the previous chapter focused on FOSS licence enforcement and its impact on the broader licensing framework, this chapter has examined the inverse of this relationship, i.e. broader legal developments and their impact on the continued enforceability of FOSS licences. In this chapter, it has been shown how judicial efforts to limit the powers of right-holders in the interests of users and the public have had an indirect and unintended consequence of also limiting the powers of FOSS licensors. The result has been that in certain circumstances, the specific enforcement objectives of FOSS licence templates may no longer be realised under German and US law. Thus, it has highlighted again the dangers of building a system within a system. Most notably, the chapter has highlighted the danger of a subversive system becoming hostage to a series of normative commitments that reshape the system in which it is situated. At the very least, this creates legal uncertainty for those participating in the production and use of FOSS. The worst-case scenario is that it renders FOSS licence templates incapable of achieving their subversive objectives, in turn threatening the viability of the FOSS model itself.

With this chapter, the thesis concludes its analysis of the broader consequences of FOSS licence enforcement. Over the course of the past two chapters, this analysis has looked beyond the immediate case law on FOSS to consider the broader systemic issues

raised by building a ‘system within a system’. Overall, it has revealed that there is a tension between FOSS and the broader licensing framework. This tension creates a cloud of uncertainty around the question of the enforceability FOSS licence templates; an uncertainty that is likely to persist so long as copyright laws must respond to the ever-changing demands of technology, economics, society and culture. Given this, the next chapter – as the final chapter in this thesis – asks an important question going forward: how might we go about reconciling the tensions between FOSS and the broader licensing framework to provide legal certainty for actors engaged in the development, dissemination and use of both FOSS and proprietary software?

## **Chapter 7: Reconciling the Systems**

### **[7.0] Introduction**

By now it should be clear that building systems within systems can create certain tensions and contradictions within the legal framework. It should also be well-established that by adopting monolithic approaches to licensing issues, whether it be the broad validation of licence features to give effect to a socially-beneficial licensing practice or the imposition of limitations on right-holders' power to protect the interests of users, there is always the risk that undesirable and unforeseen consequences will arise. Taking these observations as a starting premise, this final chapter looks beyond the problems raised by the enforcement of FOSS licence templates to the possible solutions. It sets out and evaluates a range of approaches that may be taken to reconcile the underlying tensions and contradictions that arise through FOSS licence enforcement; approaches that may ensure the effective co-existence of both systems.

### **[7.1] Raising Awareness**

The first step that can and must be taken in reconciling the tension between FOSS and general framework on licensing is to raise awareness of the fact that the two systems are intrinsically intertwined. It is only with an awareness and understanding of the way in which FOSS is constructed within the general framework of copyright law that one can begin to address the tension. By educating judges, legislators, policy-makers, lawyers and developers on the way in which FOSS licence templates are designed to channel the exclusive rights of copyright to achieve different qualitative outcomes, they can then engage in their respective decision-making processes with an appreciation of how their decisions vis-à-vis copyright law may impact on FOSS enforcement and vice versa.

Over the past thirty years, there have been significant efforts made to educate and inform decision-makers about the legal underpinnings of FOSS licence templates, the importance of their enforceability and how the templates may interact with certain aspects of the legal framework including, but not limited to, copyright. Advocacy groups such as the FSF, SFLC, SFC, FSFE, and ifrOSS – to name but a few – have played a vital role in educating decision-makers, as have many FOSS scholars in jurisdictions across the world.

For example, in the early 2000s, when the German legislature was in the process of introducing author-protective rules and mandatory rights of equitable remuneration in a series of amendments to the UrhG's copyright contract law (*Urhebervertragsrecht*), the Institute for Legal Questions on Open Source Software (*ifrOSS*), set about the task of submitting opinions on the legislative proposals that highlighted the potentially negative impact on FOSS licences.<sup>1092</sup> These opinions ultimately proved decisive in highlighting otherwise unforeseen consequences of the reforms.<sup>1093</sup> In this respect, the German legislature's initial assumption that author-protective rules would naturally be beneficial for all authors proved to be based on a lack of understanding regarding the legal 'hack' through which FOSS licences function.<sup>1094</sup> Indeed, the legislature did not account for the fact that FOSS right-holders exercised their exclusionary rights in a counter-intuitive, somewhat contradictory and subversive manner. Ultimately, the ifrOSS legal opinion led to the creation of statutory exceptions to some of the copyright contract reforms. These

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<sup>1092</sup> Jaeger and Metzger, *Stellungnahme des ifrOSS zu den Vorschlägen für eine Regelung des Urhebervertragsrechts* (Institute Für Rechtsfragen der Open Source Software, 19.04.2001) <[www.ifross.org/ifross\\_html/urhebervertragsrecht.pdf](http://www.ifross.org/ifross_html/urhebervertragsrecht.pdf)> accessed 28.08.17.

<sup>1093</sup> See 7.2.1. below.

<sup>1094</sup> The German legislature had made previous efforts to recognise FOSS licensing in 2001. While not a legislative measure, this resulted in the Parliament welcoming the use of FOSS-licensed products in the Federal Administration. See Deutscher Bundestag, Antrag 07.02.2001 Drucksache 14/5246, <<http://dip21.bundestag.de/dip21/btd/14/052/1405246.pdf>> accessed 28.08.17.

statutory exceptions will be discussed further below, but for now it suffices to highlight the vital role that raising awareness can play as a preliminary step in the decision-making process.<sup>1095</sup> Indeed, there are several instances where which FOSS advocates and scholars have sought to highlight the relations between FOSS and the broader legal framework to bring awareness to potential unintended consequences.<sup>1096</sup>

Not only is it important for judges, legislators and policy-makers to be aware of the broader ramifications of their decisions, but it is equally important for FOSS advocates to consider the broader ramifications of their legal arguments and the effects they may have on shaping precedent. For example, FOSS advocates should be more open to questioning whether their push for legal enforcement of FOSS licences has the unintended consequence of further extending and legitimising the exact kind of copyright maximalism and mass-market contracting practices to which FOSS advocates stand vehemently opposed.<sup>1097</sup> In this respect, raising awareness can prevent FOSS advocates from falling victim to a form of ‘noble cause corruption’ where actions that might otherwise be condemned are justified with respect to FOSS.<sup>1098</sup> Indeed, one of the key aims of this thesis has been to raise awareness generally to ensure that monolithic approaches do not give rise to unintended

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<sup>1095</sup> See 7.2.1. below.

<sup>1096</sup> For example, the FOSS community in Europe played an integral role in opposing the EU’s adoption of the Proposed Directive on the Patentability of Computer-Implemented Invention by highlighting its impact on FOSS; see Commission proposal COM (2002) 92). See also, Mueller, *Patents as a threat to Free and Open Source Software* (FOSS-Patents, April 2010) <[www.fosspatents.com/2010/04/patents-as-threat-to-free-and-open.html](http://www.fosspatents.com/2010/04/patents-as-threat-to-free-and-open.html)> accessed 28.08.17.

<sup>1097</sup> See, *McGowan* (n 196) 207 (‘[FOSS] licenses cause academic knees to jerk in different directions. They are “take it or leave it” forms that in some cases seek to extend the influence of an author through several levels of future production, which most scholars think is bad, but they do so in the name of “openness” (as opposed to proprietary “closed” code), which most scholars think is good.’)

<sup>1098</sup> For a good example of scholarship that adopts such a critical approach in relation to Creative Commons licensing, see Dusollier, *The Master’s Tools v. The Master’s House: Creative Commons v. Copyright* (2006) 29 Columbia J. Law & Arts. 271; see also, *Elkin-Koren* (n 284)

consequences. Of course, raising awareness of these issues is just a preliminary – albeit vital – step that must be taken towards reconciling the tensions between the two systems.

## [7.2] The Legislative Approach

When it comes to taking concrete steps towards reconciling systems, one approach that is often suggested by scholars and policy-makers is to create specific statutory provisions expressly recognising FOSS as a kind of *sui generis* sub-category of copyright exploitation. In this respect, the aim is to effectively legislate away the tensions between FOSS and the conventional licensing framework. These legislative proposals can take many different forms. They can range from the vast in scale – e.g. the creation of separate regimes for the protection of FOSS – to the very narrowest of exceptions. They are often directed towards parts of the existing legislative framework perceived to be the source of greatest tension. Thus, the legislative proposals typically reflect an understanding of how FOSS licence templates are to be interpreted within a system and where, according to that interpretation, the tensions are deemed to lie.<sup>1099</sup> This section examines some examples of legislative actions that have been taken to reconcile FOSS and the broader licensing framework.<sup>1100</sup> It also examines some proposals for legislative reform that have been put forward in scholarship.

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<sup>1099</sup> For example, Lyrdia Loren interprets CC licence templates as a form of limited abandonment of copyright, thus tailoring her legislative proposal to reflect this interpretation. See, *Loren* (n 77)

<sup>1100</sup> It is important to note that there have been legislative actions taken in many countries with respect to FOSS that do not directly concern the question of enforcement. Indeed, many jurisdictions have introduced FOSS-related legislation dealing with, *inter alia*, public procurement of software; see, *Metzger* (n 10) 7

### [7.2.1] Germany's 'Linux Clauses'

In 2002, the German legislature enacted the Copyright Contract Act.<sup>1101</sup> The underlying aim of this legislative amendment was to 'reduce the exposure of market forces and adopt measures that strengthen the position of creators vis-à-vis exploiters'.<sup>1102</sup> To achieve this, the Act conferred upon all authors an unwaivable right to equitable remuneration for the grant of non-exclusive use rights.<sup>1103</sup> Under the new provision, any author could demand the modification of a licence contract where the agreement failed to provide 'fair' or 'equitable' remuneration.<sup>1104</sup> The Act also established a process for representative associations of authors to negotiate 'joint remuneration rules' with exploiters to establish equitable rates for an industry or sector.<sup>1105</sup>

As already discussed, it became clear to FOSS advocates (ifrOSS) during the legislative process for the Act that the proposed rights of equitable remuneration could cause problems for the FOSS licensing model.<sup>1106</sup> The concern was that FOSS licensors – who grant to licensees non-exclusive use rights – would be unable to waive their equitable remuneration right.<sup>1107</sup> As a result, all licensees in a FOSS licensing chain would have to contend with possibility of remunerating the author should they decide to exercise the claim

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<sup>1101</sup> *Act to Strengthen the Contractual Position of Authors and Performing Artists of 22 March 2002*, BGBl I 1155

<sup>1102</sup> Senftleben, *Copyright, creators and society's need for autonomous art – the blessing and curse of monetary incentives* in Giblin and Weatherall (eds.), *What if We Could Reimagine Copyright?* (ANU Press, 2017) 52

<sup>1103</sup> Section 32 UrhG

<sup>1104</sup> *Ibid*

<sup>1105</sup> Section 36 UrhG

<sup>1106</sup> See *Jaeger and Metzger* (n 1092)

<sup>1107</sup> *Ibid*

in future.<sup>1108</sup> This concern was exacerbated by the fact that, in the FOSS context, complex programs may be composed of works from numerous authors, increasing the number of potential sources (and the therefore risk) of claims. Furthermore, there were concerns that FOSS licensors who exercised their claim to modify a licence contract may, depending on the applicable licence, be in violation of the terms of that licence, resulting in the termination of both the upstream and downstream licences.<sup>1109</sup> Overall, the ifrOSS opinion acknowledged that while the objective pursued in creating rights of equitable remuneration and other author-protective rules was commendable, the mandatory nature of the rights would have the unintended consequence of creating uncertainty for the FOSS model given its different licensing objectives.<sup>1110</sup> The ifrOSS opinion recommended that the bill include a narrow exception for FOSS, which was ultimately implemented in the Act by the legislature, creating Section 32(3) of the UrhG.<sup>1111</sup> This established the first of the so-called ‘Linux clauses’ in the UrhG which provides that authors may grant non-exclusive use rights free of charge without being subject to the mandatory rules on equitable remuneration.<sup>1112</sup>

In 2008, the German legislature enacted further amendments to the German Copyright Contract Law (*Urhebervertragsrecht*) as part of the ‘Second Basket’ reforms.<sup>1113</sup> This time the legislature introduced, *inter alia*, a provision establishing that the grant of use rights for uses unknown at the time of grant had to be in writing and a right

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<sup>1108</sup> *Ibid*

<sup>1109</sup> *Ibid*

<sup>1110</sup> *Ibid*

<sup>1111</sup> See Section 32(3) UrhG

<sup>1112</sup> Peukert and König in *Metzger* (n 10) 218

<sup>1113</sup> *Zweites Gesetz zur Regelung des Urheberrechts in der Informationsgesellschaft*, BGBl. I S. 2513

to seek further compensation when new uses become known.<sup>1114</sup> Once again, these amendments were deemed to create certain issues for the FOSS licensing model,<sup>1115</sup> so additional ‘Linux clauses’<sup>1116</sup> were introduced as exceptions to the new provisions.<sup>1117</sup>

Overall, the UrhG’s Linux clauses served to reduce the tension that might otherwise persist between FOSS licences and a copyright framework that is more prescriptive and paternalistic with respect to exploitation than others.<sup>1118</sup> Some have even suggested that the clauses, when taken together, may create a *sui generis* regime for FOSS licences that justifies reading other provisions of the UrhG in a purposive manner insofar as they apply to FOSS.<sup>1119</sup> In this respect, the clauses may be viewed as an expression of legislative

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<sup>1114</sup> In the original Copyright Act of 1965 (UrhG), there was a full prohibition on the transfer of rights in unknown forms of exploitation. In this respect, the ‘Second Basket’ reform could be seen as a general step towards liberalisation with a written formality requirement as a safeguard. See generally, Weisser, *Second basket of German copyright reform closes loophole on file-sharing, frees treasures from studios’ archives* (Lexology, 13 February 2008) <[www.lexology.com/library/detail.aspx?g=e6bbe7fb-766b-4742-8991-3172d039fc2e](http://www.lexology.com/library/detail.aspx?g=e6bbe7fb-766b-4742-8991-3172d039fc2e)> accessed 28.08.17.

<sup>1115</sup> Jaeger and Metzger, *Stellungnahme des ifrOSS zur geplanten Regelung der Verträge über unbekannte Nutzungsarten im Gesetzesentwurf vom 3. Januar 2006 zum ‘Zweiten Korb’* (ifrOSS, 30 January 2006) <[www.ifross.de/ifross\\_html/art46.pdf](http://www.ifross.de/ifross_html/art46.pdf)> accessed 28.08.17.

<sup>1116</sup> Sections 31a(1), 32a(3) and 32c(3) of the UrhG

<sup>1117</sup> It is important to note that in 2016 the German legislature introduced further author protective rules and rights to the UrhG’s Copyright Contract Law (*Urhebervertragsrecht*). These included (i) a 10-year limit on exclusive licences granted in exchange for a lump sum, (ii) a right to renegotiate lump-sum exclusive licences after 5 years, and (iii) a right to require exclusive licensee and their sub-licensees to provide an annual report on work’s exploitation. While these are significant changes, they are not relevant to FOSS given that computer programs are expressly exempt from these new rules pursuant to Section 69a(5). See, *Gesetz zur verbesserten Durchsetzung des Anspruchs der Urheber und ausübenden Künstler auf angemessene Vergütung und zur Regelung von Fragen der Verlegerbeteiligung*, BGBl I 2016, 3037. For an overview in English, see, Graf and Moscona, *German Copyright Law Sets Limitations on Exclusive Licenses* (Dorsey, 26 January 2017) <[www.dorsey.com/newsresources/publications/client-alerts/2017/01/german-copyright-law-sets-limitations](http://www.dorsey.com/newsresources/publications/client-alerts/2017/01/german-copyright-law-sets-limitations)> accessed 28.08.17

<sup>1118</sup> Other countries have introduced similar author-protective rules and remuneration rights. See, generally, Dysart, *Author-Protective Rules and Alternative Licences: A Review of the Dutch Copyright Contract Act* (2014) 37 E.I.P.R. 601

<sup>1119</sup> E.g. See *König* (n 939) 119-136

policy which courts may draw upon when navigating other areas of the regulatory framework.<sup>1120</sup> However, insofar as the clauses are viewed as narrow and limited exceptions to general rules, this judicial approach may attract criticism for going beyond the expressed will of the legislature.<sup>1121</sup>

Germany is not alone in having introduced specific legislation to deal with FOSS licences. In the Czech Republic, Act No. 216/2006 Coll. was introduced to amend the Czech Copyright Act's provision dealing with contractual offers to accommodate the FOSS licensing model.<sup>1122</sup> Similarly, the French legislature introduced Article L. 122-7-1 to the Code de la Propriété Intellectuelle in 2006 to explicitly recognise FOSS licences; however, the provision was deemed more symbolic than substantive in terms of its impact.<sup>1123</sup> While other countries have introduced legislation that explicitly deals with FOSS, these measures do not deal directly with the private law aspects of FOSS licences, but instead govern separate public law issues of software procurement by public administrations.<sup>1124</sup>

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<sup>1120</sup> Common law courts often draw upon legislative provisions when seeking to expand the underlying policy in an area of law, see, e.g. Lord Diplock in *Warnink v Townend* [1979] A.C. 731, 743 ('Where over a period of years there can be discerned a steady trend in legislation which reflects the view of successive Parliaments as to what the public interest demands in a particular field of law, development of the common law in that part of the same field which has been left to it ought to proceed upon a parallel rather than a diverging course.'). German courts may pursue a similar approach with respect to FOSS and the UrhG.

<sup>1121</sup> Notably, the Munich Court in *Welte v Sitecom* held that the GPLv2's restrictions were 'reasonable' under Section 307 BGB because the legislature had implicitly endorsed them through Section 32(3). See, *Welte v Sitecom* (n 436)

<sup>1122</sup> See, Koukal *Free Licenses and Recodification of Civil Law in the Czech Republic* in *Metzger* (n 10) 141-157

<sup>1123</sup> See, Binctin, *The French Copyright Law Opens Its Arms to the FOSS* in *Metzger* (n 10) 185-200

<sup>1124</sup> See Metzger, General Report in *Metzger* (n 10) 7

## [7.2.2] Legislative Proposals in Scholarship

While most countries do not have specific legislation dealing with FOSS licences, the US included, there has been no shortage of proposals made for legislative reform in scholarship. These proposals are all the product of an understanding that FOSS licences, with their specific ideational and functional objectives, are not entirely compatible with the relevant legal frameworks on copyright licensing. To give an idea of how these legislative proposals have been framed as a way of reconciling the tension, this section will very briefly discuss some notable examples.

In the United States, the idea of a federal solution to the legal issues raised by FOSS has been debated in the community for a long time.<sup>1125</sup> Some of the proposals have been more detailed than others. Indeed, there are scholars who have identified the need for legislative reform but have failed to articulate any detailed proposals in terms of how that legislative response should be formulated.<sup>1126</sup> Others have set out very detailed model provisions. For example, Sapna Kumar argues that introducing the following provision to the Copyright Act would ‘help clarify the risks for parties entering into open source agreements’:

(a) SCOPE OF OPEN SOURCE LICENSING. Any author who creates software entitled to a copyright may choose to release the work under an open source license, whereby the author:

- (1) offers any member of the public the right to use her software;
- (2) does not charge a fee or require any non-monetary payment or consideration for the licensor’s use of the author’s software; and

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<sup>1125</sup> See, e.g. Vepstas, *Copyleft Codified* (May 2000) <<http://linas.org/theory/copyleft.html>> accessed 28.08.17 (letter addressed to Richard Stallman advocating federal legislative action)

<sup>1126</sup> See, e.g. Madison, *Reconstructing the Software License* (2003) 35 LOY. U. CHI. L.J. 275, 340; Rodriguez, *Closing the Door on Open Source: Can the General Public License Save Linux and Other Open Source Software* (2005) 5 J. HIGH TECH. L. 403, 418

- (3) provides the source code to any software being licensed, at a price no greater than that of the storage media and shipping of said storage media combined.

(b) **NON-REVOCABLE RESTRICTIONS PERMITTED.** The author may utilize non-revocable restrictions on the types of use of her software that are permissible, including, but not limited to:

- (1) forbidding commercial use of the software;
- (2) requiring a user that incorporates the software into a derivative work to make the derivative work available to the public under the terms that the original work utilized;
- (3) requiring a user that incorporates the original work into a derivative work to make the source code available for the changes made to the original work;
- (4) requiring a user that incorporates the original work into a derivative work to make the source code available for the entire derivative work; and/or
- (5) requiring a user to attribute the original work to the author.

(c) **FEDERAL CAUSE OF ACTION.** This section creates a federal cause of action for author or user of an open source licensed work seeking to enforce the rights granted in this section.<sup>1127</sup>

This proposed model provision seeks to address many of the perceived flaws that Kumar identifies with respect to FOSS licences and their enforceability under US copyright law.<sup>1128</sup> Perhaps the most important aspect of the provision is that it explicitly sets out a federal cause of action (Section c) for the unique types of restrictions typically found in FOSS licences (Section b). Thus, the proposal aims to give effect to the objectives of FOSS licences, but more importantly, it aims to limit its effect to FOSS licences (Section a). In doing so, the provision tries to create a distinct cause of action for FOSS licensors which mitigates concerns over empowering others outside the FOSS context who might otherwise abuse those powers. Thus, the provision aims to provide a clear, formal footing for FOSS

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<sup>1127</sup> Kumar (n 218) 28

<sup>1128</sup> Kumar's proposal seeks to ensure that both licensor and licensee can enforce the rights notwithstanding certain flaws, e.g. acceptance and consideration. *Ibid* 19-21

in the Copyright Act, while also trying to reconcile some of the tensions that might otherwise arise from having FOSS licences built into the general framework on copyright licensing. Of course, the provision is far from perfect, but it does provide a good example of the kind of legislative reform that could be implemented to reconcile tensions. As will be discussed below, there are certain advantages and disadvantages to adopting such express legislative reforms.<sup>1129</sup>

Christopher S. Brown takes a vastly different approach with his legislative proposal for reconciling FOSS and copyright law. He argues that the best way for the FOSS movement to achieve its goals is not through FOSS licences, but instead through an amendment to the US Copyright Act to create a ‘rights relinquishment system’.<sup>1130</sup> Brown argues that FOSS right-holders should be able to relinquish – i.e. abandon or waive – their exclusive rights in works and effectively dedicate them to the public domain.<sup>1131</sup> To achieve this, Brown envisages an amendment to the 17 U.S.C. §409 which would allow for right-holders to register their works and relinquish certain exclusive rights through a check-list on the registration application form.<sup>1132</sup> The form would also allow for the right-holder to designate certain events triggering relinquishment<sup>1133</sup> and further options to reserve, *inter alia*, the right to require to attribution.<sup>1134</sup> This is a rather radical proposal and is one that

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<sup>1129</sup> See Section 7.2.3 below.

<sup>1130</sup> Brown, *Copyleft, the Disguised Copyright: Why Legislative Reform is Superior to Copyright Licences* (2010) 78 UMKC L. Rev. 749. A similar proposal is suggested by Adrienne Goss, see, Goss, *Codifying a Commons: Copyright, Copyleft and the Creative Commons Project* (2007) 82 Chi-Kent L. Rev. 963, 992

<sup>1131</sup> Brown (n 1130) 779 ff.

<sup>1132</sup> *Ibid* 779

<sup>1133</sup> *Ibid* 780

<sup>1134</sup> *Ibid*

proves to be highly problematic in several ways, no less because it reductively views FOSS as simply a waiver or relinquishment of copyright.<sup>1135</sup>

Similar legislative proposals have focused on FOSS licences as a form of waiver or abandonment of copyright, but have been more targeted in terms of how they seek to reconcile or facilitate this interpretation with the existing legal framework.<sup>1136</sup> For example, as a way of shielding the FOSS licensing model from the potentially harmful effects of termination rights set out in 17 U.S.C. §203, Timothy Armstrong proposes that Congress should introduce a limited exception for FOSS under a new §203(a)(6).<sup>1137</sup> In making this proposal, Armstrong emphasises the need to clearly delineate and limit the scope of the exception to ensure that economic interests of non-FOSS authors are still protected by the termination right.<sup>1138</sup> As an alternative proposal, Armstrong argues for the delegation of powers to the relevant federal agency to determine whether certain transactions should be exempt from the termination rules under §203.<sup>1139</sup> However, once again, Armstrong's efforts to reconcile FOSS licences as a form of waiver or abandonment does not correspond directly with how the licences have been interpreted by scholars, practitioners and the

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<sup>1135</sup> The relinquishment or waiver interpretation is flawed in many respects as it fails to account for the fact that right-holders may change their mind and revoke FOSS licences for any number of reasons. Similarly, they may wish to change the applicable licence to a work (i.e. re-licence). Furthermore, the interpretation fails to account for the common practice of dual-licensing.

<sup>1136</sup> See, e.g. *Loren* (n 77); *Armstrong* (n 971)

<sup>1137</sup> *Armstrong* (n 971) 419 ('Congress might add the following provision as a new paragraph 203(a)(6) of the statute: "No abandonment by an author of any of the exclusive rights comprised in a copyright, in whole or in part, including under the terms of nonexclusive licensing instruments that grant such rights to unnamed licensees, shall be subject to termination under this section".')

<sup>1138</sup> *Ibid* 416-419

<sup>1139</sup> As an alternative to crafting its own termination exception for open content licenses, Armstrong suggests that Congress might delegate that task to a federal agency, empowering the agency to create a list of exempt licensing instruments like the list of exceptions to the anti-circumvention rules under 17 U.S.C. 1201(a)(1)(c). *Ibid* 420

courts.<sup>1140</sup> To this end, there have been more modest and targeted proposals for reconciling FOSS that respond directly to the actual treatment of the licences by the US courts.

For example, in response to the CAFC's decision in *Jacobsen v Katzer*, David Ferrence argues that greater clarity and certainty could be provided with respect to FOSS licence enforcement if a legislative amendment were to be made to ensure that FOSS restrictions were unequivocally enforceable in copyright.<sup>1141</sup> He suggests that 17 U.S.C. §301 could be amended to expressly state that open source licences are governed by federal copyright law and not state contract law.<sup>1142</sup> In seeking to limit the scope of the amendment, Ferrence further proposes that a licence's enjoyment of such a provision could be contingent on a it being OSI/FSD certified or being sanctioned by Congress on a case-by-case basis.<sup>1143</sup>

Finally, if we look more broadly outside of the US scholarship, it is possible to find more radical proposals for the codification of rules on FOSS licences. One notable example is the 'Free Software Act' (FSA) which is a model bill drafted by an international advisory committee that codifies rules and principles relating to FOSS licences.<sup>1144</sup> The FSA represents a one of the more extensive reform proposal; one that goes well beyond the

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<sup>1140</sup> There are no reported cases of US courts interpreting FOSS licence templates as a waiver or abandonment of copyright. Furthermore, this does not correspond to the intention of the drafters in most cases.

<sup>1141</sup> *Ferrance* (n 196) 575

<sup>1142</sup> *Ibid*

<sup>1143</sup> *Ibid*

<sup>1144</sup> See, O'Sullivan *et al*, *Draft Free Software Act: Version 4* (2004) 1 SCRIPT-ed 637. For discussion on the background to the FSA, see O'Sullivan, *Best and Worst Practices in Top-Down & Bottom up Legislation* (23 August 2004) <<http://cic.unb.br/~pedro/trabs/freesoft6.html>> accessed 28.08.17.

targeted amendments already discussed. As such, the practicality of such an extensive and radical reform is limited.

### [7.2.3] Overview of the Legislative Approach

There are certain advantages and disadvantages in adopting a legislative approach to reconciling the systems. On the one hand, legislation can provide much needed clarity and certainty for both FOSS licensors and licensees. It can also indicate to courts the basic policy and values that the legislature wishes to pursue in an area of law.<sup>1145</sup> At the very least, legislation can play an important symbolic and educational role in raising the profile of FOSS and its legal treatment.<sup>1146</sup> On the other hand, legislation can be costly, time-consuming, inflexible and time-bound.<sup>1147</sup> Legislative responses to specific developments and innovations also tend to be reactive and piecemeal in nature. Thus, while establishing FOSS-specific rules and frameworks may be effective as a means of mitigating unintended consequences, it may also lead to the fragmentation of copyright law as a general-purpose regime for the protection and exploitation of original works. Furthermore, a legislative approach may be unsuitable for FOSS licensing model given its underlying libertarian and neo-liberal values.<sup>1148</sup> Indeed, as noted by Vasudeva, ‘[s]ome in the open source software community may likely be “horrified” at the idea that legislature might step in to regulate

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<sup>1145</sup> As will be discussed below, courts may look to the basic policy and values underlying legislation to assist in purposively applying the law. They may also draw upon these provisions to expand legislative policy into other areas of the law.

<sup>1146</sup> For example, Article L. 122-7-1 of the French CPI serves more of a symbolic rather than functional role with respect to FOSS licences. See generally, *Binctin* (n 1123)

<sup>1147</sup> This potentially undermines ‘licence experimentation’ as it may ossify the rules and foreclose new forms of exploitation, see *Ard* (n 205) 349 (discussing the importance of licence experimentation); see also, *McGowan* (n 196) 223-224; c.f. the flexibility of judicial approaches discussed below.

<sup>1148</sup> See *Berry* (n 96) 169 ff.

open source software’ – an idea that is perhaps no less horrifying even where the regulation is intended to support FOSS.<sup>1149</sup>

### **[7.3] The Judicial Approach**

As has been demonstrated throughout this thesis, the judiciary in both German and the US have played an important role in interpreting, constructing and enforcing FOSS licences in accordance with domestic law. It is therefore natural to assume that the courts in both jurisdictions could play an equally important role in reconciling the tensions between FOSS and general licensing framework. This section will focus on two general approaches that courts may take in this regard. The first judicial approach to reconciliation would see courts adopting a more purposive or teleological approach to the reading of established rules and doctrine of general licensing law. The second, more judicially-active, approach sees courts creating rule-based exceptions to established rules and doctrine of general licensing law in recognition of FOSS as a distinct form of software exploitation.

#### **[7.3.1] Purposive Reasoning**

The rules and doctrines of copyright law and contract are not formulated in a vacuum. They are designed to address certain issues and to achieve certain policy outcomes in practice. Sometimes a formalist application of these rules and doctrine by courts can generate outcomes that do not align with the purpose for which those rules or doctrine were initially developed. In this respect, by looking beyond the formal rules and doctrine of software licensing law to the deeper teleological or deontological rationales behind them, there is the possibility that courts in both Germany and the US may be able to accommodate both

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<sup>1149</sup> *Vasudeva* (n 37) 268

FOSS and proprietary licensing models in the same legal framework. Looking back at the judicial treatment of FOSS licences in both Germany and the US, it is possible to identify several areas in which a purposive reading of doctrine by courts could serve to reconcile the tensions between the systems.

In Germany, one of the main doctrinal obstacles that FOSS licensors encountered when trying to enforce licence restrictions in copyright was the substantive limitation embodied in Section 31(1) of the UrhG – i.e. the ‘distinctive market’ test.<sup>1150</sup> Indeed, the Munich Court held that this test prevented FOSS licensors from enforcing licence terms as *in rem* restrictions (scope limitations).<sup>1151</sup> While it was eventually established that copyright liability would arise following the breach, this was achieved through an unconventional approach which focused on the GPL’s termination provision and direct licensing provision.<sup>1152</sup> It is possible to envisage the Munich Court taking a more purposive approach in applying Section 31(1) to FOSS licences that would allow for the restrictions to be enforced in copyright notwithstanding the absence of an express termination condition.<sup>1153</sup> This give effect to FOSS licence objectives without the need to circumvent or otherwise compromise the integrity of the distinctive market test as it applies in a commercial context.

Indeed, in seeking to reconcile FOSS licences with the ‘manifest obstacle’ of Section 31, Guido Westkamp questions whether German courts might take a more purposive approach in applying the limitation to FOSS licences.<sup>1154</sup> He notes that it ‘may

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<sup>1150</sup> See Section 5.1.1.B(i)

<sup>1151</sup> *Welte v Sitecom* (n 437)

<sup>1152</sup> *Ibid*

<sup>1153</sup> It is important to reiterate that not all FOSS licence templates employ the same features and drafting techniques, see generally Chapter Three.

<sup>1154</sup> *Westkamp* (n 461)

[..] be argued that Art.31 has the sole function of protecting commercial licensees down a commercial licensing chain’ and that ‘[i]n 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’.<sup>1155</sup> Westkamp strips back the exterior of the limitation by asking ‘whether and to what extent the underlying purpose of Art.31 enables the law to provide a rationale and sound balancing of different interests’.<sup>1156</sup> He concludes by arguing that the balancing of interests inherent in Section 31 may work in favour of FOSS licensors seeking to subdivide use rights through *in rem* restriction, which could help ‘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’.<sup>1157</sup>

There are further instances where a purposive approach been proposed as a way of reconciling doctrinal tensions between FOSS and German copyright law. For example, in seeking to reconcile the FOSS licensing model with the CJEU’s decision in *UsedSoft*, Dominik König considers whether applying exhaustion to the online transmission of FOSS would be in accordance with the underlying rationales for the doctrine, e.g. to avoid multiple compensation.<sup>1158</sup> While König ultimately concludes that a purposive approach would not shield FOSS licences, his analysis highlights the type of purposive reasoning

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<sup>1155</sup> *Ibid* 41-42

<sup>1156</sup> *Ibid* 42

<sup>1157</sup> *Ibid* 44

<sup>1158</sup> König (n 939) 125 ff.

that can potentially be applied as a way of accommodating FOSS within the copyright framework.<sup>1159</sup>

Looking to the United States, it is possible to identify similar areas in which a purposive approach by courts may help address some of the tensions concerning FOSS. One area that stands out as being particularly predisposed to such a purposive approach is remedies.<sup>1160</sup> Indeed, there is a strong argument that if US courts were to read the Supreme Court's decision in *eBay v Mercexchange* in a more purposive manner, viewing the decision as one that is primarily concerned with promoting innovation and addressing the growing threats of non-practising entities (or 'patent trolls') in the software industry, then there would be more room for limiting its application to FOSS.<sup>1161</sup> Indeed, the *eBay* ruling has been met with similar arguments that seek to limit its application to other areas of intellectual property law. Such arguments generally proceed on the basis that the *eBay* decision was not intended as a grand reaffirmation of equitable discretion, as many lower courts have interpreted it, but simply a means of softening a strict property rule in a situation where it would otherwise produce an undesirable outcome that undermined public policy.<sup>1162</sup> In this light, given the socially-desirable benefits of the FOSS licensing model and the role that licences play in driving innovation, it might be argued that FOSS claimants can still enjoy a presumption of irreparable harm where they have established a claim on the merits.<sup>1163</sup> This would ensure that FOSS licensors can obtain injunctive relief

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<sup>1159</sup> *Ibid* 128

<sup>1160</sup> This purposive approach to remedies was briefly considered in Chapter Six, see Section 6.2.3.B

<sup>1161</sup> Certainly, this appears to be at least part of the rationale Justice Kennedy's opinion, see *eBay v MercExchange* (n 244)

<sup>1162</sup> See generally, *Lemley* (n 1060), *Karol* (n 1088) and *Sanchez* (n 1088)

<sup>1163</sup> Alternatively, it has been argued that a multi-factor 'sliding-scale' approach should be adopted which gives greater discretion to the courts in granting equitable relief, but nevertheless ensures FOSS licensors are able to obtain injunctive relief, see generally, *Gomulkiewicz* (n 1016)

notwithstanding the difficulties they face in demonstrating the harms aren't 'too speculative'.<sup>1164</sup>

Similarly, a purposive approach could be taken to several other areas where tensions persist in the US legal framework on software licensing. As discussed in the previous chapter, one could envisage courts reading the decision in *MDY Industries v Blizzard* in a purposive manner that ensures FOSS licence restrictions are exempted from the 'nexus' requirement in the same way that payment conditions are exempted.<sup>1165</sup>

Finally, in seeking to reconcile certain problematic aspects of the FOSS licensing model with common-law contract doctrine, some scholars have argued that courts should adopt an approach that incorporates insights from relational contract theory.<sup>1166</sup> Such an approach, if adopted by a court, would arguably fit within a broad definition of purposive reasoning to the extent that relational contract theory is seen by its proponents as a more authentic way of giving effect to the purpose of contract law.<sup>1167</sup> However, whether courts are likely to apply contractual doctrine purposively in light of relational contract theory is another matter entirely.

### [7.3.2] Rule-Based Exceptions

Beyond reading rules and doctrine in a purposive manner, courts both in Germany and the US may seek to establish rule-based exceptions that carve out FOSS licences from general

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<sup>1164</sup> *Jacobsen v Katzer* (n 657) 937

<sup>1165</sup> See, *Van Houweling* (n 284) (discussing the 'purposive nexus' test as an alternative to the *MDY* test). See also, Section 6.2.2.B above.

<sup>1166</sup> See, *Zhu* (n 49) 130-180; Zhu, 'Copyleft' Reconsidered: Why Software Licensing Jurisprudence Needs Insights from Relational Contract Theory (2013) 23:3 S. & L. S. 289

<sup>1167</sup> For an introduction to relational contract theory, see Murray, *Contract Theories and the Rise of Neoformalism* (2002) 71 Fordham L. Rev. 869, 877

licensing law. A rule-based exception differs from the purposive approach in it establishes an express, more formal footing for a person or thing (e.g. FOSS) to be excluded from the application of the general rule. With that said, rule-based exceptions are themselves usually developed over time through courts reading provisions in a purposive manner; i.e. rules emerge out of a body of case law and ossify into an express exception. While it is relatively common for judges to adopt purposive reasoning when interpreting statutory provisions or applying legal doctrine, the creation and application of rule-based exceptions by judges is perhaps more contentious. Indeed, some may argue that a democratically elected and accountable legislative branch is better positioned to create such rule-based exceptions if it is felt there is such a need for them.

### **[7.3.3] Overview of the Judicial Approach**

Just like the legislative approaches set out above, there are certain advantages and disadvantages reconciling the systems through judicial means. Whereas the legislative process can be time-consuming and responsive, judicial law-making can – depending on the legal culture and judicial tradition – be comparatively fast and proactive. Furthermore, the judicial approaches arguably allow for greater experimentation and flexibility in shaping the rules and doctrine in the face of changing technologies and practices.<sup>1168</sup> With that said, such flexibility can also lead to inconsistencies and conflicts which in turn creates further uncertainty. Relying on the judiciary to address certain issues also requires there to be a sufficient amount of litigation to come before the courts.<sup>1169</sup> Accordingly, the relative

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<sup>1168</sup> See, e.g. Cover, *The Uses of Jurisdictional Redundancy: Interest, Ideology, and Innovation* (1981) 22 Wm. & Mary L. Rev. 639, 672-74 (discussing how the multiplicity of jurisdictional fora in the US allows for experimentation and innovation in the development of new legal norms).

<sup>1169</sup> Furthermore, the pleadings and facts must raise the relevant issues for those issues to be judicially clarified.

paucity of FOSS case law, which can be attributed to the prevalence of pre-litigation negotiations and out-of-court settlements, may fail to provide a solid basis for addressing the issues raised by FOSS.

#### [7.4] Alternative Approaches

Finally, it is worth briefly acknowledging some alternative approaches that have been proposed in FOSS scholarship. It has been ambitiously suggested that a public international law approach could be pursued to establish an international framework for ensuring that there is a uniform legislative framework for FOSS licences in jurisdictions all around the world.<sup>1170</sup> It has also been suggested that instead of trying to construct and interpret FOSS licences in accordance with national legal systems, domestic courts should interpret and enforce FOSS licences as a kind of *lex mercatoria* that is detached from national law and dictated by international custom and practice.<sup>1171</sup> This could provide an alternative way for FOSS licences to be enforceable in a domestic legal setting without also having to be fully embedded in – and subject to – the domestic legal framework.<sup>1172</sup>

Finally, as an alternative approach entirely, there are those who have argued that perhaps the best response for dealing with tensions presented by FOSS licences is to place

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<sup>1170</sup> O’Sullivan and Ó Maolchraoibhe, *Legally Cementing Licences in Legislation: Two Law Merchant Models for Free Software Licences* (FOSdem, 3 February 2013) <[https://archive.fosdem.org/2013/schedule/event/legally\\_cementing\\_licences/](https://archive.fosdem.org/2013/schedule/event/legally_cementing_licences/)> accessed 28.08.17 (suggesting that ‘[a]n international, legally-binding document could be drafted; a UN Convention on the Rights of Software Sharing and Reuse.’)

<sup>1171</sup> See, Metzger (n 114); Marella & Yoo, *Is Open Source Software the New Lex Mercatoria* (2006) 47 Va. J. Int’l. L. 807

<sup>1172</sup> An example of such an approach can be found in a German case dealing with the interpretation of the ‘non-commercial’ found under the Non-Commercial Creative Commons Licence (CC-BY-NC 2.0). In determining whether the use was ‘commercial’, the Higher Regional Court of Cologne note that ‘an interpretation which focuses on critical peculiarities of German law [...] is not possible’ owing to the international character of the licence templates. See, *Deutschlandradio* (n 532)

less significance on the importance of legal enforcement and look to community norms and technological solutions (e.g. tooling) as means by which to ensure compliance.<sup>1173</sup> However, this approach essentially seeks to avoid the unavoidable challenges of legal enforcement. Ultimately, it fails to acknowledge that ‘no matter how much of an idealist one might be, without the coercive power of the state, it is difficult to convert software [or any technology] into the final determiner of the outcome of legal arrangements between two or more people’.<sup>1174</sup>

### [7.5] Chapter Summary

This chapter has demonstrated that there are various routes that may be taken to reconcile the tensions that arise from building a system within a system. The aim has not been to prescribe the ‘best’ approach, but to simply highlight that each approach has its own advantages and disadvantages. Indeed, the effectiveness or suitability of an approach will ultimately depend on a range of contextual factors. In many instances, it may be a combination of approaches that is most effective at reconciling the tensions. Thus, it is important to acknowledge the extent to which legislative and judicial approaches may interact, e.g. where a legislature determines the basic policy and values and the courts develop and extend these further through purposive reasoning. What is fundamental in all cases, however, is the need to raise awareness of the fact that FOSS is built on the very same framework of laws, that its fate as a subversive system of software exploitation is interwoven into the fate of that which it seeks to subvert. By drawing attention to the fact

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<sup>1173</sup> See, e.g. FOSSology, <[www.fossology.org/about](http://www.fossology.org/about)> accessed 28.08.17 (an ‘open source licence compliance system and toolkit’ that ‘can run license, copyright and export control scans from the command line’)

<sup>1174</sup> Seul, Dewey and Amuail, *The Blockchain: A Guide for Legal and Business Professionals* (Thomson Reuters, 2016) 122 (discussing the limitations of technological solutions albeit in relation to the blockchain)

that FOSS licence templates create a 'system within a system', decision-makers can then take the necessary steps – whether legislative, judicial or otherwise – to reconcile the systems and ensure that they can co-exist effectively.

## Concluding Remarks

According to 2016 statistics, Microsoft boasts the largest number of contributors to FOSS projects on Github out of any organisation in the world.<sup>1175</sup> Twenty years ago, it would have been difficult to imagine Microsoft being content with the mere existence of FOSS, let alone the possibility of one day being one of its biggest supporters. Microsoft – the paragon of the proprietary software model, the caricatured arch-nemesis of FOSS and principal purveyor of ‘FUD’ – actively participating in the development of FOSS, a model of software exploitation premised on the subversion of that which the company championed throughout the 1980s, 1990s and 2000s.<sup>1176</sup> If there were ever a sign that the FOSS movement had succeeded, this would surely be it.

Indeed, the fact that Microsoft is now one of the single largest contributors to FOSS projects on Github indicates that FOSS has been victorious in securing its ideational objectives as a movement. That even its fiercest ideological opponents have come to recognise that an alternative vision for the exploitation is not only possible, but can deliver in ways that the proprietary model cannot, is testament to this victory. Of course, this is not to say that FOSS has displaced the proprietary model of software exploitation. Instead, it has simply established a viable alternative, one that provides ‘exit and voice’ for those disaffected with the proprietary model,<sup>1177</sup> that addresses certain market imperfections in

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<sup>1175</sup> Github is the world’s largest web-based platform and repository for the development of FOSS. See, *The State of the Octoverse 2016* (Github, 2017) <<https://octoverse.github.com>> accessed 10.09.17

<sup>1176</sup> In the early 2000s, various senior executives at Microsoft publicly expressed views on the threats of FOSS to the software industry, see, e.g. Greene, *Ballmer: ‘Linux is a Cancer’* (Register, 2 June 2001) <[www.theregister.co.uk/2001/06/02/ballmer\\_linux\\_is\\_a\\_cancer/](http://www.theregister.co.uk/2001/06/02/ballmer_linux_is_a_cancer/)> accessed 12.09.17

<sup>1177</sup> See generally, Vetter, *Exit and Voice in Free and Open Source Software Licensing: Moderating the Rein over Software Users* (2006) 85 Or. L. Rev. 183

software industry,<sup>1178</sup> and which seeks to redress some of the broader issues raised by having a society and economy increasingly reliant on code for its everyday affairs (e.g. issues regarding access, distributive justice, and civil liberties). In this respect, the FOSS model, despite its subversive aims, has developed a synergistic relationship with the proprietary model.<sup>1179</sup>

Central to this thesis has been the understanding that for the FOSS movement to succeed in establishing its alternative vision for the exploitation of software, the licence templates must be effective both a functional and ideational level. In this respect, the fact that courts in both Germany and the United States have upheld infringement claims for the breach of FOSS licence templates has undoubtedly played an instrumental role in securing the success of the FOSS movement, providing much-needed legal certainty for those engaging in its development and use. Certainly, for companies like Microsoft to actively participate in the development of FOSS, having a clear and robust legal foundation on which to rely, both as a licensor and licensee, undoubtedly provides a strong incentive.

Yet, despite the apparent success of the FOSS movement, both in the marketplace of ideas and in the courts, it would be misguided to assume that this legal foundation is impervious to change. Indeed, as this thesis has demonstrated in detail, the legal issues surrounding the enforcement of FOSS licence templates in both Germany and the United States are far from settled. Not only are the landmark cases subject to certain criticisms and limited in their application to the diversity of FOSS licence templates, but the very way in which the templates subvert the copyright framework makes them particularly susceptible to change. This is because building a subversive ‘system within a system’ can create problems, not only for the ongoing effectiveness of FOSS licence templates, but for the

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<sup>1178</sup> See generally, Lerner and Schankerman, *The Comingled Code: Open Source and Economic Development* (MIT Press, 2010)

<sup>1179</sup> See, Lerner and Schenkerman (n 1178) 207 ff.

copyright licensing framework more generally. Indeed, this thesis has discussed in significant detail how the building of a system within a system has given rise to problems in the form of unintended consequences and legal uncertainty. On one hand, the validation of certain features found in FOSS licence templates has empowered proprietary software licensors in unanticipated ways, tipping the balance of interests in favour of right-holders and creating uncertainty for software users and competitors.<sup>1180</sup> On the other hand, by adopting a subversive approach and embedding the licence templates in a proprietary legal framework, FOSS licences risk becoming hostage to a series of normative commitments in the proprietary framework that may frustrate the subversive objectives of FOSS, even if, rather ironically, those normative commitments may broadly align with FOSS objectives.<sup>1181</sup> Indeed, the decision in *UsedSoft* represents a normative commitment to the free marketability of used software, but it has the unintended effect of frustrating FOSS licence templates ability to ensure the free marketability of software in certain circumstances.<sup>1182</sup> Once again, the result is legal uncertainty, this time for those reliant on a robust system of FOSS licences.

What this thesis has highlighted is that despite the success of the FOSS movement, despite the validation and enforcement of FOSS licence templates by domestic courts, the subversive approach that has been integral to securing this success is fraught with tensions that are not immediately apparent, instead revealing themselves over time. The thesis has also demonstrated how, despite there being certain similarities, these tensions can vary between jurisdictions depending on historical, doctrinal and policy-based considerations

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<sup>1180</sup> See generally, Chapter Five.

<sup>1181</sup> See generally, Chapter Six.

<sup>1182</sup> All the legal developments discussed in Chapter Six embody normative commitments that broadly align with those underpinning FOSS objectives, yet they nevertheless threaten to undermine the functional and ideational objectives of the licence templates.

unique to that jurisdiction. In recognition of this fact, it is vital that we continue to pay attention to the questions of FOSS licence enforcement, rejecting the view that the debate is purely academic or somehow ‘settled’.<sup>1183</sup>

As discussed in the last chapter, there are a range of approaches that may be taken to reconcile these tensions as they arise, each with their own advantages and disadvantages.<sup>1184</sup> What is perhaps most re-assuring more than anything is the fact that the ideological battle has been won and FOSS is firmly embedded in society and the economy. Given this, to the extent that legislators and courts are aware that a decision may have an impact on FOSS licensing, it is safe to assume that their decisions will not seriously threaten or undermine the effectiveness or enforceability of the licence templates. There is clearly both the necessary political will and commercial imperative to ensure that the FOSS licensing model remains effective and the templates secure their functional and ideational objectives. Indeed, one thing that united the German and US courts in their treatment of FOSS licences, as reflected in the landmark decisions, is that they both adopted a very policy-driven approach to ensuring that the licences are enforceable. There is very little to suggest that courts might not adopt a similarly purposive or policy-driven approach when dealing with the issues that arise out of the *eBay*, *MDY v Blizzard* or *UsedSoft* decisions.

Notwithstanding the fact that the ideological battle has been won, it remains the case that FOSS advocates need to be vigilant in the face of a changing legal, technical and commercial landscape. If there is one thing to take away from this thesis, it is an appreciation of the fact that when building a subversive ‘system within a system’, there is always the possibility that tensions will arise in unanticipated or unforeseen ways. In this respect, it is incumbent on FOSS advocates and scholars to continue engaging with the

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<sup>1183</sup> Metzger (n 10) 46

<sup>1184</sup> See generally, Chapter Seven.

questions raised by FOSS licence templates under domestic law, to engage with the policy-makers, legislators, courts and the broader public, and to remain aware of how the systems interact with one another.

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