

Adapting Software Licensing for Canada

Basic considerations for adapting licenses for business in Canada; there are important differences from U.S.

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Many American software publishers wish to distribute their computer software in Canada. Usually that software is already being distributed in the United States pursuant to a software license agreement. A question that Canadian lawyers frequently are asked is, how should the U.S. license agreement be adapted for Canada. This article will outline some of the basic considerations to be addressed in any such adaptation.

In general, the methods used in Canada to protect computer software are similar to those used in the United States. Software is usually licensed and not sold. Reliance is placed on trade secret laws and in varying degrees upon copyright. In certain very special cases, patent protection may be available. Canada does not have technology transfer laws that require the submission of the license agreement to a governmental authority.

BILINGUALISM

Although Canada and the United States are similar in many respects, there are significant differences between the two countries that affect licensing. One is that Canada is a bilingual country. Both French and English are official languages in Canada. This does not mean that every Canadian can speak both French and English. It does mean, however, that large segments of the Canadian population, principally but not exclusively in the Province of Quebec, speak French.

As a result, Canadian law requires certain information on packages and labels to be in both French and English. In addition, Quebec, the second most populous province in Canada, has enacted legislation making French the official language of that province. The Charter of the French Language, which came into effect in 1977, provides each resident of Quebec with certain fundamental language rights, including the right to communicate with all businesses doing business in Quebec in the French language and the right, as a consumer of goods and services in Quebec, to be informed and served in French.

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The Quebec Language Charter deals with both the form and substance of contracts. Where the Charter permits documents to be drafted in both French and another language such as English, the French version must be displayed at least as prominently as the other language. In bilingual consumer contracts, any ambiguity between the two versions of the contract is to be resolved in favor of the consumer. In addition, inscriptions on product wrappers and in advertising literature, such as directions and warranties, must be in French. These inscriptions may also appear in another language, but that other language may not be given greater prominence than the French version.

The Charter talks of "contracts predetermined by one party, contracts containing printed standard clauses, and printed order forms, invoices and receipts." These contracts must be drafted in French unless the parties to the agreement expressly agree to the contrary.

SOFTWARE CONTRACTS

Major software distributors in Canada such as IBM have standard form license agreements prepared in both French and English. This is common for companies doing substantial business in Quebec or any business at all with the Quebec Government.

If a company has a very limited business in Quebec and is confident that the Quebec residents it deals with will be willing to waive their language rights, it is possible to include a clause in the license agreement such as the following:

The parties have required that this Agreement and all documents relating thereto be drawn up in English. Les parties ont demandé que cette convention ainsi que tous les documents que s'y rattachent soient rédigés en anglais.

You should note, however, that the use of such a clause in Quebec in a standard form consumer contract renders the enforceability of that agreement open to attack. If the clause is not brought to each consumer's attention and the consumer is not permitted to choose a French language contract, the contract may not be enforceable in Quebec.

EXCLUSION OF LIABILITY CLAUSES

Software license agreements usually contain a broad exclusion-of-liability provision. The limitation-of-liability clauses used in most U.S. license agreements are inappropriate for use in Canada in one significant respect. The Canadian common law with respect to ex-

clusion of liability and the sale of goods legislation applicable in most Canadian Provinces (which may or may not apply to licensed software) distinguishes between conditions and warranties.

A condition is considered a fundamental part of the agreement. Breach of a condition will permit the non-breaching party to rescind the agreement. Warranties, however, are less fundamental. The breach of a warranty will not permit rescission but will simply allow a claim for damages.

The standard limitation-of-liability clause used in the United States seems to exclude only warranties. No mention is made of excluding conditions. In drafting exclusion-of-liability provisions, it is extremely important to ensure that both implied warranties and conditions are excluded.

The IBM standard form license agreement used in Canada contains the following exclusion-of-liability clause:

The foregoing warranty is in lieu of all other warranties or conditions, express or implied, including, but not limited to, the implied warranties or conditions of merchantable quality and fitness for a particular purpose and those arising by statute or otherwise in law or from a course of dealing or useage of trade.

CHOICE OF LAW AND FORUM PROVISIONS

Most American software publishers want to have the laws of the state in which their head office is located apply to their software license agreement in Canada. This is certainly possible. Canadian jurisprudence on choice-of-law clauses makes it clear that the parties to a contract generally are free to choose the laws of a non-Canadian jurisdiction to govern the terms of the contract. There are, however, some advantages to having the laws of one of the Canadian provinces, such as the province of Ontario, apply to the contract. Similarly, it may not be advisable to include a clause that states that the license attorns to the exclusive jurisdiction of an American court.

With respect to the choice-of-law clause, there are two scenarios in which the clause becomes significant. In the first, the licensee has or is about to breach the agreement and the American licensor wishes to obtain injunctive relief or to bring an action for damages. In the second, the licensor itself has breached the agreement and the licensee wishes to bring an action.

In the case of a breach or anticipated breach by the licensee, the choice of the laws of an American state may prove to be detrimental to an American licensor. The licensor will want to bring the action in a Canadian court with jurisdiction over the licensee. In the Canadian legal action, the American licensor will be faced with the need to prove the chosen state's laws. This will involve the expense of bringing an American lawyer to the site of the Canadian action. That lawyer will then have to give evidence as to the applicable American laws. This can be a very expensive and time-consuming process.

In the case of a motion for injunctive relief, the American licensor will likely be seeking an immediate interlocutory injunction pending a hearing on the injunction application. In such circumstances, speed is important. The need to arrange for, brief, and obtain evidence from American lawyers on the applicable U.S. laws may very well delay this process.

In the second situation, the licensee wishes to sue the licensor for breach of the agreement. If the U.S. licensor does not have an establishment in Canada and is simply exporting the software from the United States into Canada (as is often the case), then any action against the licensor will have to be brought in the United States. If the laws of a Canadian province like Ontario have been chosen to govern the license agreement, it will be the licensee that incurs the additional delay and expense in proving the applicable Canadian laws in the U.S. action. Only naturally, this will have the effect of discouraging litigation against the American licensor.

In summary, the choice of the laws of a Canadian jurisdiction to govern the Canadian license agreement will have the advantage of making litigation against the Canadian licensee less expensive and easier for the licensor, and will also discourage the Canadian licensee from suing the American licensor in the United States. In either event, the licensor enjoys a benefit as a result of having chosen the laws of a Canadian province to apply to the agreement.

Some American software license agreements contain a clause that states that the licensee irrevocably attorns to the exclusive jurisdiction of an American court. This clause can also prove detrimental in Canadian license agreements. The contractual provision whereby the licensee attorns to the foreign jurisdiction will mean that Canadian courts will recognize the foreign judgment. There remains, however, the question of enforcement. The licensor will still have to bring an action in the courts of the Canadian jurisdiction in which the licensee resides to enforce the judgment. This will again entail additional expense and delay for the licensor.

The American licensor may wish to have the option of bringing an action against the licensee in the United States in certain circumstances. The license agreement can provide that the licensee attorns to the *nonexclusive* jurisdiction of the U.S. court. This will permit the licensor to bring an action in a Canadian court in the province in which the licensee resides but, if the licensor prefers, it may proceed against the licensee in the American court.

Conclusion

This article is meant to help American lawyers and software publishers appreciate some of the basic considerations that need to be addressed in adapting their license agreements to the Canadian market. It is not meant to replace the advice of a Canadian lawyer or the adaptation of a particular licensing agreement in particular circumstances.