Enforceability Of The Copyleft Effect In The Open Source Licence GPL In Germany

By Christian Czychowski

In view of the increasing significance of open source licences in the law of software licences and first decisions concerning the most important licences by German courts, a short summary of the enforceability of open sources licences in Germany is given.

I. Introduction in the Copyleft Effect

As Open Source Software becomes more and more popular the risk rises that a company incorporates software in its products (e.g. software controlled machines) that again incorporates code that is not proprietary but derives from an open source project. If the company in such a case does not follow the rules of the respective open source license (e.g. the GPL license being the most popular open source license) severe legal effects might occur. In case the code incorporated into a third software is licensed under GPL, it might be confronted with the so called viral effect: Whereas software under GPL is available free of charge and with open code there are restrictions on the rights granted by the GPL. If one does not follow these restrictions the rights granted by the license will fall back and the company will commit a copyright infringement. This situation has not only been discussed in the Anglo-American world of law but also in Continental Europe, especially Germany where some of the first preliminary injunctions and main court actions have been fought out.

Point 4 GPLv3 regulates the distribution of unchanged copies of a program, point 5 GPLv3 those unchanged copies in source code and point 6 those copies in non-source code, that is object code. These rules include the so-called 'strict copyleft effect.' In accordance with this, the licensee is obliged to pass on new programs based on the original computer program only under certain conditions, these being specified in the original licence agreement. The legal categorisation of this effect is disputed, though this point need not be expounded here.

Point 4(2) GPLv3[1] states one of the most important principles in respect of open source licences with strict *copyleft effect:* The licensor may demand a fee for the service of copying, though not for the granting of licence itself. GPLv2 formerly included the statement *"You may charge a fee for the physical act of transferring a copy,"* now *"You may charge any price or no price for each copy that you convey."* The amendment therefore appears to leave the copyleft effect and the duty to desist from demanding licence fees unchanged.

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In effect, the licence restricts the licensee in any *price agreement.* In addition to this, point 4(1) and, above all, point 5 contain *term restrictions,* including the one that the licensee publish a corresponding copyright notice and exclusion of liability with each copy, that it leave all notices in respect of the licence and the absence of guarantee unchanged, and further that it provide all recipients of the program with a copy of the licence together with the program.

II. Limits in Cartel Law

1. Summary

We doubt that such rules and the obligation to desist from demanding licence fees for the granting of rights are in accordance with both German and European competition law.[2] Art 81 TEU and § 1 GWB (new version) forbid agreements between companies capable of restraining trade between member states and of creating restrictions to competition on the community market. Since the 7th amendment to the GWB 2005, § 1 GWB contains a practically identical provision with the exception that § 1 GWB[3] doesn't apply to international trade. In cases of trade between states, however, judgment of the situation follows in accordance with both Art 81 TEU and § 1 GWB.[4]

1. Formerly § 1 (2) GPLv2.

2. Alternative view *Heussen* MMR 2004, 445, 449, *Koch* CR 2000, 333, 336; *Jaeger/Metzger* S. 32 Fn. 1226; *Omsels* in FS Hertin S. 146; differentiating: *Spindler/Wiebe* CR 2003, 873; LG Berlin CR 2006, 735–*Validity of the GPL*; left open by LG Frankfurt CR 2006, 729.

3. *Ibid.*

4. § 22 GWB.

In cases of software licensing, the relationship between the parties would normally generally involve an inter-state relationship. Insofar it is to be assumed that the relationship will be caught by Art 81 TEU and § 1 GWB. General considerations under competition law are to be taken into account.[5]

The GPL as a licence agreement is an agreement between companies. The granting and receipt of licence has long been recognised as commercial activity.[6] But even when the transfer of software is considered to be trade in goods,[7] the result is the same, as software developers are also considered contractors[8] when distributing their goods.

Also, the above named licensee obligations include a restriction of competition in the sense of Art 81 TEU and § 1 GWB. Insofar as the defendant company is forced through the GPL to dispose with its own programs only in a certain way, the company is restricted in its competitive activity such that a restriction on competition per se exists. For this reason, such price and term restrictions are caught by competition law.

Accordingly it must be asked, whether such restrictions on competition are allowed by way of exception, for example under Art 81(3) TEU or § 2(1) GWB. More concrete examples of such general exceptions are to be found in the group exception regulations.[9] The case at hand involves copyright licences for resale, that is, for reproduction and distribution. According to the EU Commission, this is "a similar form of licensing to the licensing of technology." Accordingly, the Commission wishes to see the assessment under Art 81 TEU include the application of all principals contained in the GVO Technology Transfer and concomitant directives in respect of any concession of reproduction and/or distribution rights in respect of copyright works.[10] Others apply the vertical Regulation on Block Exemption on account of the characterisation of the licence grant as trade in goods.[11] The Block Exemption TechTransfer, however, also expressly includes software licensing contracts in Art 1(1)(b) and thus takes precedence. Both Block Exemptions, however, contain a prohibition on price-fixing as core restriction.[12] The GPL contains such a price restriction as it binds the party to free transfer of the source text and consequently to affix the licence fee to zero. Admittedly, highest price limits are permissible, though since there is no range of possible prices on setting an upper price limit of 0.00, it would be impossible to argue that the GPL merely sets an upper price limit.[13] Accordingly, there is *no group exception for price fixing.*

2. The Doctrine of Specific Object of Copyright

Cases involving elements of copyright and copyright contract also involve a certain amount of tension between the law of copyright on the one hand and *competition law* on the other. Copyright grants–like the grant of other intellectual property rights–involve the grant of an exclusive right, that is, monopoly rights. In other words, a copyright is a right to restrict competition. The tension contained in Art 81 TEU and § 1 GWB between the two fields of law is solved by the *doctrine of specific object of copyright.*[14] A comprehensive balance of interests in all the circumstances must be found between freedom of competition on the one hand and protection of intangible assets on the other hand. Insofar, distinctions are drawn between the existence and the exercise of right. Competition law leaves the existence of right unaffected restricting itself only to regulation of its use. In respect if exercise of right in terms of the exclusive right of distribution within the EU,[15] the doctrine of exhaustion must be referred to here. Competition law generally allows the assertion of copyright for the initial distribution within the EU with the consent of the right owner, though views any further restriction of competition following initial distribution of the copyright protected goods within the EU as anti-competitive. Insofar, the decision of the ECJ in the *Maize Seed* case applies. In this deci-

5. Non-specific market power cf. *Koch* CR 2000, 333.

6. *Zimmer* in Immenga/Mestmäcker, GWB, 3. Edition 2001, § 1 GWB Rn. 70 with further references.

7. *Zimmer*, in: Immenga/Mestmäcker, op cit., § 14 para. 20; *Koch* CR 2000, 273, 341.

8. *Koch* CR 2000, 273, 341.

9. § 2(2) GWB.

10. EU-Commission, Guidelines for the application of Art. 81 EU Treaty to Technology Transfer Agreements, ABl. C 101 from 27. April 2004, page 2, para. 51; criticism from *Jan Bernd Nordemann* in Loewenheim/Meessen/Riesenkampff, op cit., § 1 Rn. 216.

11. *Heath*, op cit., Kap. G Rn.6 ff.

12. Art. 4(1)(a) GVO TechTransfer.

13. Also *Heath* expressly in: Spindler (Hrsg.), *Questions of Law on Open Source,* Chap. G para.9.

14. Established case-law of ECJ, EuGH SLG 1966, 321, 349–*Grundig/Consten*; EuGH SLG 1982, 2015, 2061–*Maize Seed* = GRUR Int. 1982, 530; further *Axter/Schütze* in Loewenheim/Meessen/Riesenkampff, Cartel Law, Commentary, Art. 81 TEU para. 167 et seqq.

15. Concerning "introduction" of GPL-programs.

sion, the court states:[16]

> *"An exclusive licence or assignment with absolute territorial protection, under which the parties to the contract propose, as regards the products and the territory in question, to eliminate all competition from third parties, is caught by the prohibition of cartels contained in Art 85(1) EEC (author's note: today Art 81(1) EU) and insofar cannot be exempted in accordance with subsection 3 of this provision as the absolute territorial protection is directed again parallel imports of lawfully distributed goods."*

Even the Federal Supreme Court stresses the general principle of exhaustion.[17] Accordingly, in respect of the balance of interests as regards copyright and Art 81 EU, § 1 GWB the following applies: A contractual restriction between the parties to the licence agreement which binds the licensee despite exhaustion effect is a restriction of competition contrary to Art 81(1) EU, § 1 GWB.

This violation of competition law can, however, be justified with reference to the specific purpose of copyright protection. It has, however, already been established that this does not apply in respect of price fixing.[18]

As regards the *remaining restrictions* contained within the GPL,[19] this may be different. *Grützmacher* correctly points out that EU competition law no longer contains a blanket prohibition on licence conditions.[20] All the same, it is also recognised that such a restriction is not possible where it ignores the definition set down by the Federal Supreme Court on the form of use with respect to which rights *in rem* can be separated.[21] Others treat this question purely in terms of copyright without the connection to competition law, and arrive at various conclusions as to whether the restriction on distribution violates the principal of exhaustion.[22]

16. EuGH Slg. 1982, 2015, 2061–*Maize Seed* = GRUR Int. 1982, 530.

17. BGH GRUR 2001, 153, 154–*OEM Distribution*.

18. Loewenheim UFITA 79 (1977), 175, 206; *Jan Bernd Nordemann*, in: Loewenheim/Meessen/Riesenkampff, op cit, § 1 GWB para. 223.

19. Publication of source code, exclusion of guarantee.

20. *Grützmacher* in comments on LG Frankfurt CR 2006, 733, 735.

21. BGH GRUR 1990, 669, 671–*Bible Reproduction*; Loewenheim/*Jan Bernd Nordemann* § 64 Rn. 70.

22. No: *Heussen* MMR 2004, 445, 449, as the licensee receives the right from manufacturer; *Koch* CR 2000, 333, 336; who holds a restricted grant to be lawful; *Omsels* in FS Hertin S. 146; *Jaeger/Metzger* S. 32 Fn. 1226; differentiating: *Spindler/Wiebe* CR 2003, 873; LG Berlin CR 2006, 735–*Validity of the GPL*.

3. Implications for Copyright

In terms of the forms of use of software here considered, we are not considering here *independent types of use* in the sense of copyright law, as the linking of certain distribution objectives to a condition subsequent in the sense of § 158 German Civil Code (BGB) has long been known and has even been introduced to other fields.[23] Alone on account of this special form of contract, a unique type of use arises. This requires a usual, both commercially as well as technically independent and thus clearly distinguishable type of use.[24] Open source software is such a type of software as well as proprietary software. No technical difference exists here. It is not apparent that a computer program distributed as open source software is that or not. The case is thus not distinguishable from the *OEM Distribution* case. In this case, the court expressly states: "Were the right owner… able to make further distribution… subject to conditions, the free movement of goods would be hindered in an unacceptable manner."[25] In summary, it can be said then, that the contractual obligation towards the author of GPL computer programs, or at least those obligations preventing the licensee from taking licence fees, as well as those requiring the publishing of the source code and making further demands of the offer of the computer program, represent an unlawful restriction of competition under Art 81 TEU, § GWB. Admittedly it must be said in favour of those arguing the permissibility of this rule[26] that § 32(2)(3) now expressly allows the free concession of rights of use as exception; this has, however, nothing to say on the lawfulness of such third party restrictions[27] in terms of competition law.

4. Legal Consequences of the Competition Violation

The legal consequence of the competition violation is the partial nullity of the licence agreement, the effect of which is to be adjudged in light of § 139 BGB. Should the partial nullity of individual clauses contained in the GPL lead to the nullity of the entire agreement, computer programmers who must license their computer programs in order to remain in business could no longer grant licences. In case of the above violation, § 139 BGB cannot result in the

23. See only BGH GRUR 1958, 504–*The Private Secretary*.

24. BGH GRUR 2001, 153, 154 - *OEM Distribution*.

25. BGH GRUR 2001, 153, 154 - *OEM Distribution*.

26. Wandtke/Bullinger/*Grützmacher* § 69c para. 62.

27. Alternative opinion *Jaeger/Metzger* GRUR Int 1999, 839.

invalidity of the entire licence for to hold otherwise would expose the defendant, both under § 139 BGB as well as under the GPL regulations, to the possibility of an action for breach of copyright merely on account of its use of the computer program in the manner for which the licence was issued. The Federal Supreme Court has recognised that the legal consequence of § 139 BGB could be exposed to a correction through the defence of fraud. This is true in particular in respect of cases in which it would be unreasonable to hold the entire contract to be void on account of the competition violation contained in a single severable clause: *"The Senate has, however, allowed the defence of fraud when one party rely on the nullity of one clause to attempt to establish the nullity of other contractual provisions where the initial clause has been declared null and void by virtue of it being contrary to principles of free competition."*[28] In this case, which concerned expanded plastic slabs, the contract clause[29] which was declared null and void on account of its being anti-competitive fell to the detriment of the party relying on the clause and which was placed in a better position on account of the clause's nullity:[30] "This party should not be allowed to claw additional advantage by reliance on this partial nullity to establish the nullity of further otherwise unobjectionable provisions of contract through § 139 BGB."[31] From this, one can conclude a general principle that a clause declared null and void by on account of it violating principles of competition law cannot by relied on to establish the nullity of the entire contract through § 139 BGB where this would stand in contradiction to the purpose of competition law. In the case of the GPL, to hold the entire contract to be null and void would represent a complete disregard for general principals of competition law: Should–anti-competitive–price-fixing and[32] restrictions result in the invalidity of the granting of right of use, the anti-competitive agreement to fix prices and agree conditions would be completely without risk for the licensor. It could–where the licensee asserts the unlawfulness of the price-fixing or condition agreement–always threaten the licensee with an action for breach of copyright. The consequence would be that the violation of competition law would remain without sanction as otherwise the licensee would find itself faced with an action for breach of copyright. In other words: The total nullity under § 139 BGB would run fully contrary to the sanction aimed at through competition law. It would also be contrary to the aim of competition law to free the contracting parties from any risk of nullity.[33] As the licensor would be freed of all risk associated with any clause being declared void, indeed because the entire risk would be placed on the licensee, the application of § 139 BGB is to be corrected by competition law. Only the price-fixing clause/individual condition breaching competition law is void. The remainder of the contract remains valid.[34] ■

28. BGH GRUR 1991, 558, 559–*Expanded Plastic Slabs*.

29. Equal to partial nullity of contract.

30. BGH op cit.

31. BGH op cit.

32. Perhaps also.

33. As in *Jan Bernd Nordemann* in Loewenheim/Meessen/Riesenkampff, Cartel Law, 2006, § 1 GWB para. 252; Emmerich ZHR 139 (1975), 501, 513; *Pfeiffer* in Festschrift Benisch, page 313, 320.

34. Also *Grützmacher* in comments on LG Frankfurt CR 2006, 733, 735.