Welcome to the latest bulletin from Bristows’ Commercial Disputes team. This bulletin has been prepared by the Technology Disputes group within the team, which is led by Kevin Appleton.

Should you have any comments on this bulletin, we would be delighted to hear from you. Please click HERE to email your comments to us.

‘Second-hand’ software licences: what next following UsedSoft v Oracle?

Tom Ohta

The ruling of the Court of Justice (CJEU) in UsedSoft GmbH v Oracle International Corp (Case C-128/11) has sparked lively debate in the software industry and legal sector with its likely impact on the ‘second-hand’ software market across Europe. In its ruling, the CJEU considered how the principle of exhaustion of rights applied to computer programs under Article 4(2) of the Software Directive, i.e. the circumstances in which the “first sale” in the EU of a copy of a program by the rights holder exhausts its distribution right within the EU.

Adopting a liberal approach to the term “sale” under Article 4(2), the CJEU considered that a sale took place where a perpetual or near perpetual software licence is granted at a fee designed to obtain the software’s economic value. However, it clarified that a sale does not take place where the contractual arrangement lacks the economic characteristics of a “transfer of ownership”, e.g. where the software is being rented or made available in exchange for the provision of a service. Moreover, it considered that the principle of exhaustion applied whether the sale took place by digital download or on a physical medium, such as a CD.

However, the CJEU confirmed that the principle of exhaustion does not apply to enterprise licensing where block software licences are granted. In this type of arrangement, a first acquirer cannot rely upon the principle to lawfully divide or split its block licence and then resell individual licences.

In addition, the CJEU made clear that a first acquirer must make its own copy of the software unusable at the time of its resale to avoid infringing the copyright owner’s exclusive right of reproduction of its computer program.
With the CJEU's decision applying to software already licensed within the EU, software vendors will need to carefully consider its implications upon existing licences, as well as considering its effect going forwards. A copy of the CJEU's decision can be found [here](#).

---

**Be reasonable... Exclusions of liability, UCTA and the ‘reasonableness test’ in Avrora v Christie**

**Angela Fouracre**

Any commercial contract which incorporates clauses limiting or excluding a party's liability may be affected by the Unfair Contract Terms Act 1977 ("UCTA"). In an interesting case which serves as a useful reminder for those who regularly draft and review outsourcing and technology contracts, the High Court considered when UCTA will apply to exclusions and disclaimers, before applying the 'reasonableness test' (*Avrora Fine Arts Investment Limited* ("Avrora") v *Christie, Manson & Woods Limited*)[1] ("Christie's").

**UCTA and Commercial Contracts**

UCTA may affect a commercial contract in the following ways:

**Negligence:**

- A party cannot exclude or restrict liability for negligence except insofar as the term satisfies the requirement of reasonableness (section 2(2) of UCTA) (but note that a provision which attempts to exclude or restrict liability for death or personal injury resulting from negligence will always be ineffective).

**Misrepresentation:**

- A contract term which excludes or restricts liability for pre-contractual misrepresentation or any remedy available for such misrepresentation shall have no effect except insofar as it satisfies the requirement of reasonableness set out in UCTA (section 3 of the Misrepresentation Act 1967). Exclusions of liability for fraudulent misrepresentation are void on public policy grounds.

UCTA may also affect limitations and exclusions where a contracting party deals on the other's written standard terms of business (section 3, UCTA) and/or where liability is limited or excluded for breach of certain implied terms (sections 6 and 7, UCTA), although the Court did not have to consider these particular provisions in *Avrora v Christie's*.

**Requirement of reasonableness:**

- The 'requirement of reasonableness' is that the term shall have been a fair and reasonable one to be included having regard to the circumstances which were or ought reasonably to have been known to or in the contemplation of the parties when the contract was made.

- UCTA lays down guidelines which are relevant to determining whether a contract term satisfies the requirement of
reasonableness (Schedule 11(2), UCTA) and include the strength of the respective parties’ bargaining positions and whether the customer knew or ought reasonably to have known of the existence or extent of the term.

**Background to Avrora v Christie’s**

Avrora purchased a painting called ‘Odalisque’ for £1.5 million (also paying an additional buyer’s premium) at an auction conducted by Christie’s in 2005 which was thought to be by a well known Russian artist, Kustodiev. By 2006, Avrora had begun to doubt the authenticity of the painting and obtained a number of expert opinions confirming it was a forgery.

Christie’s had provided a 5 year ‘limited warranty’ in its terms and conditions that the painting was the work of Kustodiev. Avrora’s sole and exclusive remedy for breach of this ‘limited warranty’ was stated to be the cancellation of the sale and the refund of the original purchase price. Avrora accordingly sought to cancel its purchase of the painting pursuant to the ‘limited warranty’ but also made claims against Christie’s for negligence and misrepresentation.

The High Court found that the painting, on the balance of probabilities, was not the work of Kustodiev and that Avrora was entitled to cancel the purchase and recover the money it paid pursuant to the ‘limited warranty’. While relatively little therefore turned on Avrora’s other claims that Christie’s had been negligent in attributing the painting to Kustodiev and had impliedly represented that it has reasonable grounds for holding that opinion, when it did not, the Court nevertheless went on to consider them.

Avrora’s claims for negligence and misrepresentation ultimately failed but it is useful to consider the Court’s reasoning in this regard.

**Avrora’s Negligence and Misrepresentation Claims**

_Duty of care?_

In relation to Avrora’s negligence claim, the Court firstly considered whether Christie’s owed Avrora a duty of care. Christie’s argued that it never assumed any responsibility to Avrora other than pursuant to the ‘limited warranty’. In particular Christie’s pointed to specific provisions in its terms and conditions which provided that it was not responsible for errors and omissions in the catalogue and had not given any representation or warranty or assumed liability of any kind (other than in relation to the ‘limited warranty’).

The Court acknowledged that a disclaimer of responsibility can potentially prevent a duty of care arising (referring to the well-known case of *Hedley Byrne & Co Ltd v Heller & Partners Ltd*[2]) and took the view that the terms and conditions had prevented a duty of care from arising in this case as Christie’s had made it clear they did not assume any responsibility to Avrora beyond the ‘limited warranty’. Accordingly, unless the relevant provisions could be attacked under UCTA, then the negligence claim had to fail.

_UCTA and the negligence claim_

It was then necessary for the Court to consider whether the relevant provisions fell within UCTA – that is, did they in fact exclude or restrict Christie’s liability for negligence? Christie’s argued that there was a distinction to be drawn between terms that restrict or exclude the relevant obligation or duty and those terms that define the basis on
which a party provides its services (and so prevent an obligation or duty accruing in the first place). Christie’s position was that the relevant terms and conditions only defined the scope of the task it was undertaking so were not caught by UCTA.

The Court found that terms which simply defined the relationship between two contracting parties can fall outside UCTA, otherwise every contract which contains contractual terms defining the extent of each party’s obligations would have to satisfy the requirement of reasonableness. However, a provision which tries to deny an assumption of responsibility will be subject to UCTA if it attempts ‘retrospectively to alter the character of what has gone before’ or ‘to rewrite history or parts company with reality’. In this case, the Court took the view that Christie’s had taken responsibility for attributing the painting to Kustodiev (it had given the ‘limited warranty’, stated its opinion was based on research and charged Avrora a substantial premium) and so did ‘part company with reality’. The Court therefore considered that UCTA applied to the relevant provisions.

Misrepresentation

The High Court further found that Christie’s had impliedly represented that it had reasonable grounds for holding its opinion that the painting was by Kustodiev.

The ‘requirement of reasonableness’

Accordingly, the Court went on to consider the ‘requirement of reasonableness’ in relation to those terms which barred a claim in misrepresentation and/or excluded or restricted its liability for negligence. The Court found that the relevant terms satisfied the requirement of reasonableness on a number of bases, which included:

• Avrora had some familiarity with Christie’s terms and in any event could reasonably be expected to know of them;

• Avrora was left with a remedy, that is to cancel the purchase and recover what it had paid under the ‘limited warranty’;

• While Christie’s only contracts on its own standard terms, Avrora was a vehicle for a rich man who was under no economic imperative to deal with Christie’s; and

• Even though Avrora had been required to pay a large buyer’s premium to Christie’s, Avrora received the benefit of the ‘limited warranty’ in return.

Comment

Christie’s were bound to return the purchase price to Avrora as a result of the ‘limited warranty’ in its terms and conditions, but was successful in limiting its liability beyond this. While the Court did not express a view as to whether the relevant terms and conditions would have satisfied the requirement of reasonableness if Christie’s had not given the ‘limited warranty’, had Christie’s sought to exclude its liability entirely, the Court may well have come to a different conclusion.

[1] [2012] EWHC 2198 (Ch)
[2] [1964] AC 465
**NetTV and deliberate repudiatory breach: a brief update**

**Angela Fouracre**

It is possible that the Court of Appeal may soon finally resolve the conflicting legal authority which exists in relation to deliberate repudiatory breach of contract and its effect on exclusion and limitation of liability clauses. See our article from September 2011 on this interesting point here.

While the High Court controversially found in *NetTV* that there was a strong presumption against construing an exclusion clause so as to cover a deliberate and repudiatory breach of contract, in *AstraZeneca* it was stated (*obiter*) that it is always a question of construction of an exemption clause as to whether it covers a particular breach (however categorised), without any such presumption.

The appeal relates to a summary judgment (summary judgment being the procedure by which any of the parties or the court can dispose of all or part of a claim early without proceeding to trial) granted by the Commercial Court arising from a contractual dispute between Shared Network Services Limited (“SNS”) and Nextira One UK Limited (“Nextira”). The decision was, in essence, that SNS’ claim for damages against Nextira was barred by an exclusion clause in the contract between them.

It has become apparent (following the granting of an order by the Commercial Court for security for costs in relation to the appeal) that SNS was granted permission to appeal in the interests of clarifying the conflict of authority at High Court level between *NetTV* and *AstraZeneca*, notwithstanding the Court’s view that SNS was otherwise unlikely to succeed on appeal. Accordingly, if the appeal does go ahead as planned in October 2012, it may be that the conflict of authority in this area will be resolved. The expectation remains that the High Court’s comments in *AstraZeneca* will be followed by the Court of Appeal. Look out for further updates in the next edition of Legal Eye – Technology Disputes.

---


---

**Online copyright infringement: the demise of surfthechannel.com**

**Tom Ohta** and **Sarah Ruthven**

---
A criminal prosecution for conspiracy to defraud has been successfully brought for the first time against the operator of a website providing links to films, TV programmes and music, leading to a four-year prison sentence. With the recent Musicmetric report[1] indicating high levels of illegal file-sharing and confirming its detrimental impact upon the music industry, this successful criminal prosecution is noteworthy in a year that has seen the arrest of the operators of the Megaupload file-sharing site in New Zealand, the shutdown of music file-sharing site RnBXclusive by the Serious Organised Crime Agency, and most recently, the voluntary shutdown of the TV catch up service UKNova following receipt of a cease and desist notice. In this article, we consider the circumstances in which this criminal prosecution was brought and comment on what challenges rights holders continue to face when seeking to bring civil claims against websites facilitating widespread online copyright infringement.

Surfthechannel.com (“STC”) was set up by Mr Anton Vickerman in October 2007 and provided links to third party sites to facilitate easy access to thousands of television shows, films and popular music. Its users could either stream or download content, free of charge, often before it had been released in the UK.

Mr Vickerman recruited volunteers to track down files for films on third party sites and to then post links to those files on STC. Users were also encouraged to check the validity of links and verify that linked content was showing in English, resulting in STC becoming one of the most up-to-date sites of its kind. However, at no point did STC host the content on its own servers; it solely provided links to the files on third party sites.

By August 2009, there were two million links on STC, of which there were in excess of 5,500 links to films. The site was rated as the 514th most popular website in the world, generating STC between £50,000 and £60,000 in advertising revenue each month. From 2009 to 2011, STC produced a profit of £250,000 from a turnover of just under £1 million.

There was widespread concern about the extensive nature of the copyright infringement being facilitated by STC and its detrimental impact upon the film, TV and music industry. The Federation Against Copyright Theft (“FACT”) brought a private prosecution against Mr Vickerman after the CPS declined to pursue a case against him. Following an investigation by FACT, Mr Vickerman was arrested in 2008 and charged with conspiracy to defraud[2] by facilitating copyright infringement. FACT argued that as a result of STC’s activities, the industry had lost revenues of between £52 million and £198 million. In order to successfully prosecute Mr Vickerman under the criminal burden of proof, it was necessary for FACT to prove his guilt ‘beyond reasonable doubt’.

In earlier cases where sites posted links to pirated material (for example, Oink and TV Links) the CPS had previously been unsuccessful in pursuing a criminal claim for conspiracy to defraud. A key distinguishing factor that contributed to Mr Vickerman’s successful conviction was that he actively curated the website, seeking out links and ensuring their validity. It was therefore far from a passive search engine. Mr Vickerman sought out the links with full awareness of their content, and in some cases, STC located film files itself, uploaded them onto third party sites (mainly in China) beyond the reach of the...
English court’s jurisdiction, and then posted the link to the film file on STC. In sentencing Mr Vickerman, the judge commented how such conduct reflected Mr Vickerman’s aim to make films available but remain immune from prosecution.

This case is interesting because it also highlights the challenges faced by rights holders when seeking to protect their intellectual property against online infringement. For instance, it was difficult initially to discover Mr Vickerman’s identity with STC’s domain name registered remotely to provide anonymity and its servers deliberately located outside the jurisdiction. On this question of jurisdiction, the decision of the Court of Justice in the Football Dataco[3] case is eagerly awaited which will hopefully clarify whether jurisdiction can be established in the Member State where infringing content is being accessed by the end-user, as well as in the jurisdiction in which the server hosting such content is located.

Moreover, the STC case raises the complex issue of whether linking to infringing content can incur liability for infringement. The position under English law is far from clear, although in a summary judgment in a defamation claim, the High Court considered that the operator of a website could be liable for allegedly defamatory postings on a website that it linked to even though it carried no defamatory postings itself.[4] In other jurisdictions, the Dutch courts recently held that providing links to a photograph can in certain circumstances infringe copyright in it[5], whilst the Canadian Federal Court considered that linking to a photograph on a third party site did not infringe its copyright.[6] Until this issue of linking is clarified, those seeking to link to proprietary content are left exposed to potential liability for copyright infringement, with different jurisdictions reaching different conclusions.


[2] Under section 12 of the Criminal Justice Act 1987, this is an offence defined as “an agreement by two or more by dishonesty to deprive a person of something which is his or to which he is or would be or might be entitled and an agreement by two or more by dishonesty to injure some proprietary right of his”. Scott Appellant v Metropolitan Police Commissioner Respondent [1975] A.C 819


[5] Sanoma Media Netherlands BV et. al v GS Media B.V. (Case 507119/ HA ZA 11-2896), 12 September 2012
