

## RESEARCH NOTE

### TRADE PRACTICES IMPLICATIONS OF INFRINGING COPIES OF OPEN SOURCE SOFTWARE

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#### 1. ABOUT, BACKGROUND

- 1.1 This is a research note on what issues may arise under the *Trade Practices Act 1974* (Cth) (TPA or the Act) where a corporation (referred to as a “vendor”, “seller” etc in this note) sells, purports to sell or offers for sale, infringing copies of open source software. Linux Australia has agreed to contribute funding towards the preparation of this Research Note. The author gratefully acknowledges this support.
- 1.2 This research note is intended to outline the relevant law in general terms. It does not take into account any particular fact circumstances and is therefore an outline of the applicable law of the area. Whether or not a breach of the Act has occurred in any given case will be heavily dependent upon the particular circumstances of that case.
- 1.3 This research note is not legal advice and must not be relied upon as legal advice.
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#### 2. SUMMARY

- 2.1 This summary is subject to the discussion in the body of the note. All references to vendors etc are to corporations acting as vendors.
- 2.2 A vendor selling an infringing copy of open source software is likely to be in breach of at least one section of Part V the *Trade Practices Act 1974* (Cth) relating to misleading or deceptive statements or conduct, and likely more than one. There are many cases in which such breaches have been found in relation to infringing copies of software. Even where a vendor only offers to sell (as opposed to actually selling) an infringing copy they are still likely to be in breach of the Act.

#### Example (TYN Case):

A vendor sold or offered to sell white CDs marked “Backup CD” on which were infringing copies of software. The vendor was found to be in breach of section 52 of the Act and sections 53(a), (c) and (d) of the Act because, among other things, its conduct in “*selling or offering to sell*” the CDs was an express or implied representation that the items were made by or with the licence of the copyright holder and that the vendor was lawfully entitled to sell them.

- 2.3 Lack of knowledge, ignorance or lack of intention to mislead on the part of a vendor will not affect whether a breach has occurred. “*I didn't realise such-and-such fact*” is **not** an excuse under Part V of the Act. This may apply in circumstances such as: a vendor is not aware that the device they are selling has infringing copies of open source software (eg loaded without their knowledge by a third party



supplier); a vendor honestly, but incorrectly, thinks that the software on the device was properly licensed; or a vendor intended to have all of the software properly licensed.

**Example (Embo Holdings Case):**

A seller told an agent that the seller owned a plane. The agent repeated this to a buyer. The buyer paid the seller for the plane and later discovered that the seller did not own the plane (therefore the statement by the agent that the seller owned the plane was false). The seller went bankrupt. There was no evidence that the agent had any knowledge of the falsity of the representations as to ownership and they did no more than convey the information given to them. The agent was held liable under section 52.

- 2.4 A breach attracts remedies such as damages to persons who suffer a loss caused by the breach and injunctions which mandate corrective action. A company in breach will usually also be liable for legal costs incurred in bringing an action against them.
- 2.5 Depending on the circumstances a non-compliant company may also be committing an offence under the Act. If an offence is committed the offending company may be liable for a fine of up to \$1.1 million.
- 2.6 Persons, including officers and agents of the company, who are knowingly concerned in a contravention can also be held personally liable. As a general rule, the smaller the operation the more likely there will be a relevant connection between an officer and the conduct to ground personal liability.

3. **TRADE PRACTICES ACT**

3.1 The Trade Practices Act is a Commonwealth Act. Among other things it prohibits misleading or deceptive conduct in trade or commerce. It also implies certain warranties into contracts for the sale of goods and services to consumers. In each case it applies to the acts of corporations. In this research note any reference to a vendor etc is a reference to a corporation.

3.2 The more general prohibition on misleading or deceptive conduct is in section 52(1):

*“A corporation shall not, in trade or commerce, engage in conduct that is misleading or deceptive or is likely to mislead or deceive.”*

3.3 Section 53 contains additional, more specific, prohibitions which apply to specific categories of conduct in connexion with a supply of goods or services. Section 53 states (many subparagraphs omitted):

*A corporation shall not, in trade or commerce, in connexion with the supply or possible supply of goods or services or in connexion with the promotion by any means of the supply or use of goods or services:*

(a) *falsely represent that goods are of a particular standard, quality, value, grade, composition, style or model or have had a particular history or particular previous use;*

...

(c) *represent that goods or services have sponsorship, approval, performance characteristics, accessories, uses or benefits they do not have;*

(d) *represent that the corporation has a sponsorship, approval or affiliation it does not have;*

(e) *make a false or misleading representation with respect to the price of goods or services;*

...; or

(g) *make a false or misleading representation concerning the existence, exclusion or effect of any condition, warranty, guarantee, right or remedy.*



- 3.4 Some aspects of both section 52 and section 53 have been given a specific meaning by courts. Broadly speaking the courts have interpreted these sections in a manner which prefers the protection of consumers. In particular, the courts look to an objective characterisation of the conduct from the eyes of a person who is exposed to that conduct. For example:
- (a) to establish a contravention of section 52 it is not necessary to prove that a person has actually been misled. It is sufficient for the conduct to “be likely to” mislead (it follows from this that there is also no need to prove that someone has suffered loss or damage from the conduct);
  - (b) there is no need for the person engaged in conduct under section 52 to have an intention to mislead or deceive. The conduct is of itself sufficient to ground an action. For example, honest belief that a statement is true or ignorance as to the true state of affairs will not prevent it from being misleading or deceptive;
  - (c) if (eg) a relevant representation is false it will be a contravention of section 53 without needing to show that anyone has relied on the representation;
  - (d) similarly, there is no need for any specific intention or mental element for a contravention of section 53. A false representation within the scope of one of the categories of section 53 will be a contravention notwithstanding that the representation was honestly made believing it to be true, or that the maker had no intention to mislead;
  - (e) it is not necessary to prove that any person has received a representation under section 53 in order for it to be actionable;
  - (f) in appropriate circumstances silence can constitute “conduct” under section 52 or a “representation” under section 53. In particular, a failure to make known something which ought to have been made known can give rise to a misrepresentation; and
  - (g) there is no need for a statement to be false in order to be misleading or deceptive. Statements can be literally or technically true and still be misleading or deceptive.

#### 4. ESTABLISHED REPRESENTATIONS IN CASE LAW

- 4.1 There are many examples in the case law where a business selling infringing copies of software in the absence of a licence was found to be making a representation in breach of the Trade Practices Act - see, for example, *Microsoft Corporation v Ezy Loans Pty Ltd*, *Microsoft Corporation v TYN Electronics Pty Limited*, *Microsoft Corporation v PC Club Australia Pty Ltd*, *Microsoft Corporation v Goodview Electronics Pty Limited* and *Microsoft Corporation v Blanch*.<sup>1</sup> In these cases the court found, in effect, that by selling a computer with copies of software a person was making at least three representations:
- (a) that the copies were made with the permission of the [copyright holder];
  - (b) that the seller was lawfully entitled to provide those copies to the purchasers; and
  - (c) that the purchasers were entitled to use those copies.
- 4.2 For example, in the TYN case,<sup>2</sup> infringing copies of software were loaded on otherwise nondescript CDs which were sold or offered for sale.<sup>3</sup> The court found that (emphasis and square brackets in original):

*“by reason of the respondents’ conduct in selling and offering to sell the Backup CDs and the Restore CDs the respondents have,*

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<sup>1</sup> *Microsoft Corporation v Ezy Loans Pty Ltd*, [2004] FCA 1135, *Microsoft Corporation v TYN Electronics Pty Limited (In Liquidation)*, [2004] FCA 1307, *Microsoft Corporation v PC Club Australia Pty Ltd* [2005] FCA 1522, *Microsoft Corporation v Goodview Electronics Pty Limited* [2000] FCA 1852 and *Microsoft Corporation v Blanch* [2002] FCA 895.

<sup>2</sup> *Microsoft Corporation v TYN Electronics Pty Limited (In Liquidation)* [2004] FCA 1307.

<sup>3</sup> One class of CDs bore ‘a white label marked with the words “BACKUP CD”’ and the other class is not described, but no reference is made to markings on the face of the CDs in the trade marks discussion, so it is safe to assume they did not bear any relevant trade marks. See discussion *ibid* at paragraphs 25-29.



‘expressly or impliedly represented to purchasers of those products, contrary to fact, that:

- (a) such items were made by or with the licence of [Microsoft];
- (b) the respondents were lawfully entitled to sell such items; and
- (c) the purchaser of such items is entitled to use such items.’”

4.3 The court went on to find that, in light of the breach of copyright and trade marks, those representations were false and misleading contrary to section 52, and sections 53(a),(c) and (d) of the Trade Practices Act.<sup>4</sup> This case is notable in that it finds that the “*conduct in selling and offering to sell*” the CDs constituted a representation. That is, the representation occurred through what the vendor did, not through what the vendor said.

4.4 Equally therefore, where a vendor sells or offers to sell a device loaded with copies of open source software, that vendor will also likely be making representations that the device was made by or with the licence of the copyright holder of the open source software, and that the vendor is lawfully entitled to sell the device. If the copies are infringing copies, then these representations will in all likelihood be false or misleading contrary to section 52, section 53(a) (goods of a particular standard etc), section 52(c) (approval of the goods) and section 53(d) (approval of the corporation) of the Act. The “approval” representation is that the copyright holder of the open source software has approved the goods/corporation as the case may be.

## 5. “POLYGRAM” REPRESENTATIONS

5.1 Under copyright law, a court may make orders for the seizure or other disposal of an article which contains an infringing copy.<sup>5</sup> This means that consumers who have acquired an infringing copy are liable to have that copy taken off them. Courts have found that, by offering for sale an article containing infringing copies, the vendors of such an article are representing that purchasers will receive good title in the article and have quite possession of the article. As the article is subject to orders under section 116 these are misrepresentations.<sup>6</sup>

## 6. OTHER REPRESENTATIONS NOT DISCUSSED IN CASE LAW

6.1 Case law in this area to date has focussed on closed source software, so the discussion of what representations are being made does not take into account the specific licence characteristics of open source software. For example, open source software licences typically include provisions (among others):

- (a) expressly permitting the user to to modify the software;
- (b) expressly permitting the user to copy the software;
- (c) stating that the user has a right to be provided with a copy of the licence terms;
- (d) stating that the user has a right to be provided with a copy of the source code of the software (only for some licences).

6.2 It goes without saying that if a vendor makes a positive representation about what an end user may do with the software and that representation is inconsistent with the licence terms for the software, then the vendor will be making a false or misleading representation about rights in breach of section 53(g).

6.3 Even where a vendor simply says nothing there is still scope for a representation to be found (as, in the TYN case above, where a variety of representation were found to have occurred through selling and offering for sale the relevant CDs). Where a vendor sells an article which has open source software loaded on it, a purchaser would reasonably think that the various open source licence terms do not

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4 Ibid at paragraphs 30, 31.

5 Section 116 of the Copyright Act.

6 See *Re Polygram Records Pty Ltd v WEA Records Pty Ltd; RCA Ltd; Monash Records (Australia) Pty Ltd, Monash Records (Melbourne) Pty Ltd* [1985] FCA 47, *Microsoft Corporation v Ezy Loans Pty Ltd* [2004] FCA 1135 at paragraph 67 and *Microsoft Corporation v Blanch* [2002] FCA 895 at paragraph 67 adopting the reasoning in *Goodview* to find a breach of section 52.



exist. That, is, in the absence of the vendor telling them of the terms, the purchaser would reasonably think that their rights in the open source software were not as extensive as they actually are. Therefore, there are good grounds for believing that, by failing to inform the purchaser of the true extent of their rights (under the open source licence), a vendor will be engaging in a further misrepresentation.

- 6.4 As the nature of the representations goes to what rights the purchaser has or doesn't have, the vendor will be at risk of breaching the prohibition in section 53(g) against making “*a false or misleading representation concerning the existence, exclusion or effect of any condition, warranty, guarantee, right or remedy*” and, consequently, also at risk of committing an offence under section 75AZC (see discussion in section 9 below).
- 6.5 Additionally, if a vendor represents that a price is payable for a licence over open source software it would likely be in breach of section 53(e) (false or misleading representation as to the price of goods or services) of the Act.

## 7. WARRANTIES IMPLIED IN CONSUMER TRANSACTIONS (DIVISION 2 OF PART V)

- 7.1 Section 69 of the Trade Practices Act implies the following warranties (among others), into contracts for the supply of goods to a consumer:
- (a) that the supplier has the right to sell the goods; and
  - (b) that the consumer will enjoy quiet possession of the goods; and
  - (c) that in the case of a contract for the supply of goods under which the property is to pass or may pass to a consumer – an implied warranty that the goods are free, and will remain free until the time when the property passes, from any charge or encumbrance not disclosed or known to the consumer before the contract is made.
- 7.2 Clearly, in the case of the sale of such goods, the seller is subject to an implied condition that they (ie the seller) have a right to sell the goods. If such a sale would be illegal because they are not compliant with a licence, then this implied condition will be breached, similarly in the case of an implied warranty as to quiet possession.<sup>7</sup>
- 7.3 Equally, it would also seem to follow that if a consumer would ordinarily expect to be able to resell the product, and they are in fact unable to do so legally because the seller has not provided source code, then the seller would be under an obligation to make that known to the consumer.<sup>8</sup> In that case a failure to do so would likely be a misrepresentation. While not strictly within the historical usage of “*charge or encumbrance*” (which relate to security interests in property) the failure of the initial seller to provide source code in the first place will place real restrictions on the purchaser's ability to legally sell copies of the software and could therefore be argued to be an encumbrance within the meaning of the section.
- 7.4 Which supplies are “supplies to a consumer” is somewhat complicated. It suffices to note that generally if a supply is for less than the statutory amount (currently \$40,000) and, in the case of goods, the goods are not acquired for the purpose of resupply or for modifying other goods in the course of commerce, then that supply will be a supply to a consumer. However, there are also other circumstances which will also be supplies to a consumer.

## 8. APPLE CASE MISREPRESENTATIONS

- 8.1 One final fact situation where a misrepresentation may be occurring is in relation to manuals. In the Apple computer case<sup>9</sup> the Full Court of the Federal Court found that the defendants were in breach of section 52 by including (apparently infringing) copies of Apple II user manuals when they supplied their “Wombat” branded computers. In that case, a majority of the court found that:

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<sup>7</sup> See discussion on the Polygram case above.

<sup>8</sup> I note that if the good is specifically acquired for the purpose of resale, then it will *not* be a sale to a consumer.

<sup>9</sup> *Apple Computer Inc v Computer Edge* [1984] FCA 137. This case was overturned on appeal to the High Court. However, this finding was not appealed to the High Court.



*“in supplying the two manuals to purchasers in association with the supply of WOMBAT computers, is misleading or deceptive conduct or conduct which is likely to mislead or deceive within the meaning of s 52. It also constitutes an untrue representation that the WOMBAT computer is approved by the manufacturer or supplier of the APPLE II computer (para 53(c)) and an untrue representation that the first respondent is approved by, or has an affiliation with, the manufacturer or supplier of the APPLE II computer (para 53(d)).”<sup>10</sup>*

8.2 So, the argument in the case of open source would be, that if (eg) “man” pages are readily available on the article (or perhaps available through a user interface), then misrepresentations analogous to those in the Apple Case will occur.

## 9. OFFENCES AND REMEDIES

9.1 Where a person contravenes a provision of Part V a court may issue an injunction against that person (eg requiring them to publish corrective advertising or undertake other remedial action). An injunction may also be issued against a range of classes of person who have participated in the contravention (eg by aiding, abetting or being knowingly concerned in a contravention).<sup>11</sup> In addition, if another person suffers damage as a result of the contravention they may recover that loss from the person contravening the Part or against other persons sufficiently involved in the contravention.<sup>12</sup>

9.2 A corporation which is in breach of section 53 will also very likely fall within the wording of the criminal offence in section 75AZC. Section 75AZC creates an offence by tracking the wording of section 53. That offence is stated to be a “strict liability” offence, which means that the prosecution does not need to prove a “fault element” (eg criminal intent) under the criminal law. The Act includes specific defences which are not available for the corresponding civil actions. Moreover, a higher standard of proof applies in relation to offences.

9.3 A breach of section 75AZC can result in a fine of up to 10,000 penalty units. As at June 2010, one penalty unit is \$110. Therefore, a breach can result in a fine of up to \$1.1 million.

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<sup>10</sup> *Re Apple Computer Inc and Apple Computer Australia Pty Ltd v Computer Edge Pty Limited and Michael Suss* [1984] FCA 137 per Lockhart J.

<sup>11</sup> Section 80.

<sup>12</sup> Section 82.