

Study unit 6

Digital licensing of intellectual property

Overview

In this study unit you will be introduced to licensing of intellectual property on the Internet. You will determine the validity of online licences, and of limitations and exclusions of liability contained in such licences. You will also be introduced to the relevant principles to determine which legal system governs a particular licence. Finally, you will be introduced to principles of competition law that may be relevant in this context.

Learning outcomes

After completion of this study unit you will be able to —

- ☐ understand the difference between express and implied licences
- ☐ determine the validity of online licences, and limitations and exclusions of liability
- ☐ apply the relevant choice of law principles
- ☐ determine which licence terms conflict with competition principles

Discussion

Introduction

Electronic commerce

The rapid growth of the Internet and its integration with other telecommunications based activities has brought about permanent and fundamental changes to international commerce. It has given rise to the establishment of a borderless environment for communication and the electronic delivery of goods and services which, in turn, has contributed to the rapid growth of electronic commerce. Many kinds of business activities may be conducted electronically including the exchange of information, products, services and payments (see Department of Communications *Green Paper on E-Commerce* November 2000 (available at <<http://www.ecomm-debate.co.za>> at 9–10). In the digital environment owners of

*shrink-wrap & click-on
licences*

intellectual property rights are making increased use of licenses to exploit their intellectual property. This is particularly so in the mass marketing of computer software where frequent use is made of so-called shrink-wrap and click wrap licences. Many right owners are concerned that traditional intellectual property protection alone is insufficient to protect their rights in the licensed property. In an attempt to entrench their positions, they include in their licences contractual restraints and remedies that go beyond the scope of traditional intellectual property protection (Kenneth L Port, Charles R McManis, Terence P McElwee, Faye M Hammersley *Licensing Intellectual Property* (1999) at 300-301).

legal uncertainties

The law applicable to electronic commerce and digital licensing in particular is in many respects uncertain. These uncertainties have largely been brought about by the shift from paper to electronic trading, the practical steps involved in negotiating a contract and the global marketplace (see Benjamin Wright *The Law of Electronic Commerce EDI, Fax and E-Mail: Technology, Proof, and Liability* (1991) at 235; see also Toh See Kiat *Paperless International Trade: Law of Telematic Data Interchange* (1992) at 10–11, 161–193). Digital licensing agreements raise a number of issues, some of which will be dealt with in this article. Reference will be made to a number of international initiatives to regulate digital licences. These may provides some guidance for law reform in South Africa.

Licensing

agreement

Each type of intellectual property right includes the right to exploit the property by licensing it to others. An intellectual property licence is an agreement in terms of which the intellectual property owner grants permission to the licensee to perform an act or exercise a right in relation to the property which, in the absence of such licence, would amount to an infringement of the right concerned. A licence confers no proprietary rights to the property licensed. This means that, in the absence of any statutory authority to the contrary, a licence confers no right on the licensee to enforce the intellectual property right concerned against third parties (see OH Dean *Handbook of South African Copyright Law* (1999) para 1-84; GC Webster & NS Page *South African Law of Trade Marks* (2000)

para 11-1).

Express licences

restrictions

non-exclusive, exclusive, or sole

An intellectual property licence is invariably granted expressly. In the absence of specific legislation prescribing formalities, a licence may be written or oral. Generally, a licence is not restricted in any way: It may be granted in respect of any one or more of the acts falling within the scope of the intellectual property right concerned, in respect of any area and for any term (Alan Smith *Copyright Companion* (1995) 15; see also *Storm Impact Inc et al v Software of the Month Club* (US Dist Lexis 11789 (ND ILL 1998)). A licence may be non-exclusive, exclusive or sole. A non-exclusive licence merely confers on the licensee the right to use the intellectual property. An exclusive licence, by contrast, confers on the licensee the right to use the intellectual property licensed to the exclusion of all other persons, including the owner of the right (see section 1(1) of the South African Copyright Act 98 of 1978). A sole licence confers on the licensee the right to use the intellectual property licensed to the exclusion of all other persons except the licensor (Webster & Page op cit at para 11-1).

Implied licences

patent licences

Circumstances may exist in which a licence may be implied by law or be inferred from conduct. An example of a licence implied by law can be found in section 58 of the South African Patents Act 57 of 1978. It provides that, in the absence of any agreement to the contrary, a licence to make a patented article carries with it the right to use or dispose of the patented article.

objective test

Before a licence will be inferred from conduct it must be clear, on a preponderance of probabilities, that the licensor intended to grant a licence. In deciding this question the test is objective and not subjective (see *Standard Bank of South Africa Ltd & another v Ocean Commodities Inc & others* 1983 (1) SA 276 (A) at 292; *Joel Melamed and Hurwitz v Cleveland Estates (Pty) Ltd*; *Joel Melamed and Hurwitz v Vornier Investments (Pty) Ltd* 1984 (3) SA 155 (A) at 164–165).

implied from circumstances

Copyright licences, for example, can be implied from the circumstances in which the copyright work is made available. In *Blair v Osborne & Tomkins* [1971] 2 QB 78 (CA), an architect who had been commissioned to draw plans was held to have granted an implied licence to the landowner to build in a way that reproduced those plans (see WR Cornish *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* 4 ed (1999) para 12-13).

WIPO Treaties

The WIPO Copyright Treaty (WCT) and the WIPO Performers and Phonograms Treaty (WPPT) were concluded in 1996. Both these treaties affirm the rights of intellectual property owners in the digital environment and emphasize the exclusive right of the owner to authorize the reproduction, distribution and communication to the public of digital copyright works.

implied licence for browsing

(Although South Africa played an active role in the conclusion of these two treaties, it has not yet ratified them.) In view of extended rights afforded to a copyright owner of a work in electronic form, the question arises whether any licence can be implied from the owner's conduct of placing of that work on the Internet without restrictions. It is submitted that such conduct carries with it the implied licence to make temporary copies (into RAM and probably also into the user's browser software cache) of the work for purposes of browsing (see Christopher Reed *Internet Law: Text and Materials* (2000) 61). Such an implied licence will not extend to the reproduction of that material by downloading or saving it.

Issues pertaining to the digital licensing of intellectual property

The validity and enforceability of electronic licences

consensus

Probably the most important issue which arises in the electronic environment is the validity and enforceability of online licences. Consensus is the basis for every contract in South African law (see RH Christie *The Law of Contract in South Africa* 4 ed (2001) 31; *Reid Bros (South Africa) Ltd v Fischer Bearings Co Ltd* 1943 AD 232 at 241). The main components of consensus are the offer and acceptance (see Ellison Kahn et al *Contract and Mercantile Law: A Source Book* vol 1 2 ed (1988) 9).

The offer must contemplate acceptance and a resultant

advertisements

obligation or obligations. An advertisement is regarded as a mere invitation to do business and it is not regarded as an offer (see *Crawley v R* 1909 TS 1105). This applies to the display of goods in a shop, or the placing of advertisements in the press or circulars (see Robert Sharrock *Business Transactions Law* 2 ed (1998) 47). The prospective customer who comes forward is deemed to make an offer to buy, and only upon acceptance of his offer by the advertiser does a contract come into existence (see Sharrock op cit at 47–48). An advertisement may, depending on its wording, qualify as an offer (see *Carlill v Carbolic Smoke Ball Company* [1893] 1 QB 256).

acceptance of offer

A binding contract is created when the acceptance of an offer is made. The acceptance must be manifest by some unequivocal act from which the inference of acceptance can logically be drawn (see *Reid Bros (South Africa) Ltd v Fisher Bearings Co Ltd* supra at 241; *Collen v Rietfontein Engineering Works* 1948 1 SA 413 (AD) at 429–430). A licensor may indicate the mode of acceptance of an offer (see *Driftwood Properties (Pty) Ltd v McLean* 1971 (3) SA 591 (A); *Westinghouse Brake & Equipment (Pty) Ltd v Bilger Engineering (Pty) Ltd* 1986 2 SA 555 (A) at 573), which should be adhered to by the licensee (see *Laws v Rutherford* 1924 AD 261 at 264; *Bloom v The American Swiss Watch Co* 1915 AD 100 at 103).

perform specific act

The need to communicate the acceptance of the offer may also be waived impliedly by requiring the licensee to signify her acceptance by some specified act (see Kahn op cit at 114; *R v Nel* 1921 AD 339 at 352; *Federated Timbers (Pretoria) (Pty) Ltd v Fourie* 1978 (1) SA 292 (T) at 297)). The licensor may also expressly dispense with the requirement of communication of the acceptance (see *McKenzie v Farmers' Co-Operative Meat Industries Ltd* 1922 AD 16 at 22; *Ex parte Davies* 1950 SR 270).

Shrink-wrap licence

A shrink-wrap licence is a printed standard form agreement which is usually placed or printed on the package containing the computer software and sealed in a plastic or cellophane wrapper. The licence purports to bind the purchaser of the software when she assents to its terms by breaking and opening the plastic or cellophane wrapper. A warning on the outside of the wrapper informs the potential purchaser that by breaking the seal she accepts the terms of the agreement, which are visible through the plastic or cellophane. The typical notice states that if the user is unwilling to agree to the terms

and conditions of the licence, she may return the unopened package for a full refund. Usually the licensing agreement is not between the retailer and purchaser but between the developer and the end user (see Tana Pistorius 'The Enforceability of Shrink Wrap Agreements in South Africa' (1993) 5 *SA Mercantile LJ* 1; see further Tana Pistorius 'The Rights of the User of a Computer Program and the Legality of "Shrink-Wrap" Licences' (1991) 3 *SA Mercantile LJ* 57).

click-on licence

A click-wrap licence usually entails a screen on a commercial web site containing the terms and conditions of a contract of sale and licence. If the user wishes to purchase products, acquire information or exploit technology offered through this 'electronic shop', she will be instructed to 'click' on certain icons to indicate her acceptance of the terms and conditions (see Clive Davies 'Electronic Commerce — Practical Implications of Internet Legislation' (1998) 3 *Communications Law* 82; Tana Pistorius 'Formation of Internet Contracts: An Analysis of the Contractual and Security Issues' (1999) 11 *SA Mercantile LJ* 282 at 292–293). On the Internet, web sites also enable users to download software subject to the terms and conditions of electronically transmitted licences which enable the user to click on either 'accept' or 'decline'. Online licences usually incorporate terms relating to proprietary rights, the manner and use of the software and accompanying documentation, restrictions on such use and warranties and limitations of liability.

Pistorius ((1993) 5 *SA Merc LJ* at 6) contends that the terms of a shrink-wrap licence printed on the packaging containing a computer program constitutes a valid offer by the program developer to the purchaser to acquire the program subject to the terms and conditions contained in the licence. The typical shrink-wrap licence clause reads as follows:

typical licence

'By breaking this seal you agree to be bound by all the terms and conditions of this licence agreement. If you do not accept or agree to these terms you may, within fifteen (15) days, return this entire package unused and unopened to the person from whom you acquired it for a full refund.'

method of acceptance

This statement forms the offer and prescribes the method of acceptance. It also contains an implied waiver of notice of acceptance. The opening of the package by the purchaser constitutes a valid acceptance of that offer and signifies the

purchaser's tacit acceptance of the terms and conditions of the licence (see Pistorius (1993) 5 *SA Merc LJ* at 11). The shrink-wrap licence is separate from the contract of sale which the purchaser enters into with the supplier. Consequently, it does not matter whether the purchaser becomes aware of the licence before or after the conclusion of the contract of sale. It should be noted that every sale involving a shrink-wrap agreement is subject to cancellation, should the user not agree to the terms of the shrink-wrap agreement (see also Pistorius (1991) 3 *SA Merc LJ* 57).

offer?

When one examines the validity of click-wrap and other online licences, the first question to be asked is whether the contents of a web site or electronic mail constitute an online 'offer'. It is important to note that the offer must be made with the intention of forming a binding contract. An offer must be definite and complete and afford a clear indication of the offeror's intentions (see *Humphreys v Cassell* 1923 TPD 280). A valid contract will be formed with anybody who accepts an offer, made to indeterminate persons, by advertisement or other methods in the predetermined manner (see *Carlill v Carbolic Smoke Ball Company* (supra)). An advertisement or digital image of products for sale on a web site is generally directed 'to the world' and may, depending on its wording, constitute an offer. It is clear that a valid contract may be concluded with anybody who accepts the offer through the Internet.

enforceable

Although click wrap and other online licences have not yet been tested in court, there would appear to be no reason why they should not be enforceable. Unlike the position pertaining to shrink-wrap licences, where the contract terms are unread until the purchaser obtains delivery of the software, in the case of click-wrap and other online licences, the customer is aware of the contractual terms before a commitment is made to acquire the goods, services or information (see Davies op cit at 84). Davies (ibid) notes that the supplier may need to keep electronic audits, which can demonstrate that the buyer in fact did agree to the terms of the contract by clicking on certain icons.

Green Paper

The *Green Paper on E-Commerce* recommends legislation which recognizes the validity and enforceability of electronic contracts. Clarity should also be provided on the recognition of electronic communications including electronic offers and

acceptances which are generated automatically without immediate human intervention (at 23–24).

*UNCITRAL Model
Law*

On an international level, the United Nations Commission on International Trade Law (UNCITRAL) adopted a model law on electronic commerce in 1996 which is intended to provide a basis for national legislation. The Model Law provides for the legal validity of electronic communications (article 2). It recognizes electronic contracts and provides that an offer and acceptance can take place electronically (article 11). An acknowledgement of receipt may be given in any form including by conduct (article 14).

EC Directive

The principles governing online contracts in Europe can be found in the European Directive on Electronic Commerce (Directive 2000/31/EC of 8 June 2000). The Directive is designed to provide a framework for national legislation on electronic commerce in Europe. Member States are required to ensure that electronic contracts are enforceable (article 9). This means that Member States will have to ensure that no legal impediments exist against the online conclusion of contracts. In concrete terms, Member States will have to repeal provisions that prohibit or restrict the use of electronic media or electronic agents (see Charles Clark *Net Law, a Cyberspace Agenda for Publishers*, paper delivered at the *Publishing Online Workshop* at the *International Conference on Electronic Commerce and Intellectual Property* held in Geneva, Switzerland, 14–16 September 1999). Certain prescribed information must be provided by the service provider clearly, comprehensively and unambiguously prior to the placing of any order for goods or services. Contract terms and conditions must be made available in a way that permits their storage and reproduction (article 10). Where the recipient of a service places an order, the service provider must acknowledge receipt of the order electronically without undue delay. The order and the acknowledgement of receipt are deemed to be received when the parties to whom they are addressed are able to access them (article 11; see further DM Gourlay & J Warner 'Further Developments in Electronic Commerce in the EU and the UK' 2000 August *Copyright World* 13).

In the United States of America, the Uniform Computer Information Transactions Act 2000 ('UCITA') is designed to create an enforceable set of rules for computer information

UCITA

transactions including electronic licencing agreements. UCITA follows the UNCITRAL Model Law by giving full recognition to electronic contracts (section 107). It provides that the offer and acceptance may be in any manner and by any medium reasonable in the circumstances (sections 202 and 203).

manifesting assent

Electronic interactions between human and electronic agents (that is automated systems) are sufficient to create a valid contract (section 206). A person adopts the terms of a contract by manifesting assent (section 209). She can do so by signing the record embodying the terms or by some other affirmative conduct such as clicking on an icon. The adopting party must have had the opportunity to review the terms before reacting. All that is required is that the terms or record be brought to her attention before manifesting assent. It is not necessary for her to have actually read, understood or negotiated the terms in order to be bound (section 112).

mass-market licences

Section 210 deals specifically with mass-market licenses such as shrink-wrap and click-wrap licences. It sets forth a series of rules which will render mass-market licences enforceable, even though they are not signed by both parties and even if the licence terms are not available prior to the purchase. The section endorses the use of click-on licences by providing that assent to the terms of the licence may be manifested before or during the initial use of or access to the software. If the licence terms are presented to the licensee after an initial contract, the licensee must have had reason to know that the terms would be proposed later for assent. A licensee manifests assent by signing the record or term or by some other affirmative conduct (see Gail E Evans 'Opportunity Costs of Globalizing Information Licences: Embedding Consumer Rights Within Legislative Framework for Information Contracts' (1999) 10 *Fordham Intellectual Property, Media and Entertainment LJ* 277–278). This assent may be shown by using the product after having an opportunity to know of the licence terms (see Pamela Samuelson 'Licensing Information in the Global Information Market: Freedom of Contract Meets Public Policy', paper presented at the 7th Annual Conference on International Intellectual Property Law and Policy, in New York, 8–9 April 1999, at 4). A party must be afforded an opportunity to decline to take such action after having the opportunity to review the licence. There can be no opportunity to review unless the licensee's attention is called to its terms (section 212). If the terms of the licence are available for review only after the

licensee has paid its fee, the licence is not binding, and a refund is available, if the licensee stops using the software and returns all copies (Evans op cit at 278).

Canada

In Canada, the Uniform Electronic Commerce Act 1999 also follows the UNCITRAL Model Law by providing for legal recognition of information in electronic form (section 5). It provides that an offer and acceptance of an offer or any other matter that is material to the formation or operation of a contract may be expressed by means of an electronic document (section 20). A contract may be formed by the interaction between electronic agents or between electronic agents and natural persons (section 21). The Act endorses the use of click-wrap licences by providing that an offer, an acceptance or any other matter that is material to the formation of a contract may take place in electronic form including the touching or clicking on an appropriately designated icon or place on a computer screen (section 20).

Australia

The Australian Electronic Transactions Act 162 of 1999 also aims to facilitate the use of electronic transactions. Section 8 recognizes the validity of transactions which take place wholly or partly by means of electronic communications.

Formalities

no formalities

As a general rule, there are no prescribed formalities for an intellectual property licence. The licence may be written, oral or inferred by conduct. A notable exception is an exclusive copyright licence. Section 22(3) of the South African Copyright Act requires an exclusive licence to be in writing and signed by or on behalf of the licensor. Uncertainty exists as to whether the conclusion of an exclusive copyright licence electronically will satisfy such formal requirements. Furthermore, provision is made for the recording of a licence against a trade mark, design and patent registration. In each case, application must be made to the appropriate registrar in the prescribed form (see regulation 62 of the Patent Regulations 1978; regulation 39 of the Trade Mark Regulations 1995; regulation 39 of the Design Regulations 1998). Presently, the regulations require such applications to be in a prescribed non-electronic form. Even where provision is made for the filing of documents by means of electronic transfer, the originals must be filed within a specified

period (see regulation 6(4) of the Trade Mark Regulations 1995).

Green Paper

The *Green Paper on E-Commerce* focuses attention on the uncertainty that exists regarding the extent to which non-compliance with prescribed formalities will affect the validity or enforceability of an online contract. It raises the question whether legislative provision should be made for standards to which electronic documents must conform in order to satisfy any such prescribed formal requirements (at 21–22). In regard to the signature requirement, the question arises to what extent legal recognition should be granted to electronic signatures. An electronic signature is a functional equivalent of a handwritten signature which is used to authenticate a data message or electronic record. (at 26–27).

*UNCITRAL Model
Law*

Article 6 of the UNCITRAL Model Law on Electronic Commerce provides that the requirement that the agreement be in writing will be satisfied by an electronic document if the information contained therein is accessible so as to be usable for subsequent reference. This implies that the relevant electronic information should be readable and interpretable and be retained for subsequent use. This in turn implies that any software that may be necessary to read the electronic information should also be retained. Where a signature is required, the requirement will be satisfied by any method that identifies the originator and confirms that person's approval of the contents of the electronic communication. As far as the level of security is concerned, Article 7 provides that the method used must be reliable as is appropriate for the purpose for which the electronic communication was generated or communicated in the light of all the circumstances. The Model Law does not restrict the manner in which an electronic communication must be authenticated but establishes general conditions under which electronic communications would be regarded as authenticated with sufficient credibility. It is left to the national legislatures to determine the legal recognition to be accorded to the various methods of identification.

EC Directive

The European Directive on Electronic Commerce imposes an obligation on member states to ensure that the legal requirements applicable to contracts do not create obstacles to the use, validity and enforceability of electronic contracts (article 9). Member states must update their legislation to permit the

use of electronic contracts where they are required to be in writing and/or signed.

UCITA

UCITA provides that a requirement that a term be in writing is satisfied by a record (section 105). A record is any information that is inscribed or stored in any manner and is retrievable in a form from which it can be perceived (section 102; Port et al op cit at 322). The requirement that an agreement be signed is satisfied if it is authenticated by the person to be bound in a manner which is sufficient to indicate that a contract has been formed and which describes the subject matter involved (sections 105 and 201). (A record is required only if the contract requires payment of \$ 5000 or more or it is a licence for a period of one year or longer.)

Canada

The Canadian Uniform Electronic Commerce Act follows the UNCITRAL Model Law by providing that the requirement for information to be in writing is satisfied by information in electronic form if the information is accessible so as to be usable for subsequent reference (section 7). The document containing the information must be capable of being printed or stored by the recipient in a format that does not materially change the information contained in the document and which will render it accessible for subsequent reference (see sections 12 and 13). Information which identifies the origin and destination of the electronic document and the date and time when it was sent or received must also be retained (see section 13). A requirement that a document be signed is satisfied by an electronic signature (section 10). An electronic signature is defined as information in electronic form that a person has created or adopted in order to sign a document and that is in, attached to or associated with the document (section 1). An electronic signature should be reliable for the purposes of identifying the signatory, in the light of all the relevant circumstances, including any relevant agreement and the time the electronic signature was made.

Australia

The Australian Electronic Transactions Act adopts a less stringent approach. It provides that the requirement that a document be in writing is satisfied if the information is given by means of an electronic communication where, at the time the information was given, it was reasonable to expect that the information would be readily accessible so as to useable for subsequent reference (section 9). The Act provides that the

requirement for a signature is satisfied by any method which is used to identify the signatory and to indicate her approval of the information communicated. Having regard to all the relevant circumstances at the time it was used, the method adopted must be as reliable as is appropriate for the purposes for which the information is communicated (section 10). Particular methods of identification such as an electronic signatures or other unique electronic identifications may be prescribed certain cases (section 10(2)).

South Africa

In terms of South African law it will only be possible to apply online for the recordal of a licence against a trade mark, design, or patent registration if the regulations concerned are amended to permit the electronic filing of documents in satisfaction of the present requirements. The regulations should be amended to give legal recognition to electronic forms and documents and their electronic filing (see, for example, section 9 of the Canadian Uniform Electronic Commerce Act; section 9 of the Australian Electronic Transactions Act). Also, section 22(3) of the South African Copyright Act will have to be amended to give legal recognition to electronic communications and the identification and authentication of electronic signatures in satisfying the requirements of 'writing' and 'signature' for exclusive copyright licences.

Attribution

Green Paper

The *Green Paper on E-Commerce* focuses attention on another issue which may be relevant to online licences — the attribution of electronic communications (at 24–25). The question may arise whether a communication was in fact sent by the person purported to be the originator. In the case of a document in paper form, the problem may arise as a result of a forged signature. In an electronic environment, the problem may arise where an unauthorized person may have sent an electronic message even though the authentication by code or encryption may be accurate.

*UNCITRAL Model
Law*

The UNCITRAL Model Law on Electronic Commerce deals with this problem by establishing a presumption that an electronic communication will be deemed to be that of the originator if sent by a person authorized by the originator or by an automated system programmed by or on behalf of the originator (see article

13(2)). An addressee is entitled to regard an electronic communication as being that of the originator if she properly verified the origin of the communication according to an agreed procedure or the communication resulted from a person who is entitled to access to a method used by the originator to identify electronic communications as its own (see article 13(3)(a)–(b)). An addressee is not entitled to regard the communication as being that of the originator if she knew or ought to have known that the communication is not that of the originator (article 13(4)). The purpose of article 13 is not to assign responsibility. It deals rather with attribution of data messages by establishing a presumption that under certain circumstances a data message would be considered as a message of the originator, and goes on to qualify that presumption in case the addressee knew or ought to have known that the data message was not that of the originator (see *Guide to Enactment* para 83).

EC Directive

The European Directive on Electronic Commerce does not address the problem of attribution. It is therefore left to the member states to deal with this issue on an individual basis.

UCITA

UCITA does not establish any presumptions or prescribe what form an attribution procedure may take. It simply provides that contractual obligations are attributed to the person who individually or through an agent assented to the contract. The burden of establishing attribution is on the person seeking to rely on it (section 214). Attribution of an electronic communication may be shown in any manner including use of an agreed attribution procedure.

Canada

Like the European Directive, the Canadian Uniform Electronic Commerce Act does not contain any specific provisions relating to attribution. The reason for this is explained as follows:

‘...The Uniform Act does not say how to show who signed an electronic document. Attribution is left to ordinary methods of proof, just as it is for documents on paper. The person who wishes to rely on any electronic signature takes the risk that the signature is invalid, and this rule does not change for an electronic signature’ (see Annotated text of the Uniform Electronic Transactions Act below section 10).

The Australian Electronic Transactions Act provides that, in the absence of agreement to the contrary, the purported originator of an electronic communication is bound by that communication

Australia

only if the communication was sent by the purported originator or with her authorization (section 15). Section 15 is a restatement of the common-law principles on attribution of communications.

Choice of law

choice imputed to parties

Online intellectual property licences usually span national borders and it is important to determine which jurisdiction's law governs the licensing agreement. Where the parties have not expressed a choice of law and it cannot be implied or inferred from the contract provisions, a choice of law has to be imputed to the parties (see WA Joubert *The Law of South Africa* sv 'Conflict of Laws' 1st reissue by AB Edwards (1993) para 460 p 361 and paras 464–469 pp 368–372). In this regard, the legal system with which the contract has the 'closest and most real connection' is assigned — the so-called proper law of the contract. It is clear that standard form licences accepted by a user in South Africa may be subject to interpretation according to the law of a foreign jurisdiction.

proper law

Traditionally, our courts have followed the approach that the proper law of a contract is the *lex loci contractus* unless the contract is performed elsewhere in which case the *lex loci solutionis* applies (see Coenraad Visser 'Choice of Law in Internet Copyright Disputes' (1999) 11 *SA Mercantile LJ* 268 at 277; *Standard Bank Ltd v Efroiken & Newman* 1924 AD 171 at 185; *Shacklock v Shacklock* 1984 (2) SA 40 (W) at 51; see also CF Forsyth *Private International Law: The Modern Roman-Dutch Law including the Jurisdiction of the Supreme Court* 3 ed (1996) 275). The *lex loci* of a contract is usually the place where the contract was formed.

information theory

In South African law, two theories are used to ascertain the time and place of contracting depending on the mode of delivery or communication used. According to the information theory, which is generally applied to modes of direct, interactive communication, agreement is reached when each party is aware that the other is in agreement with him, which will be at the time and place the offeror receives communication of the offeree's acceptance of her offer (see Christie *op cit* at 29). According to the expedition theory, which is generally applied to postal contracts, agreement is reached at the time when and

expedition theory

place where the acceptance is posted. Where the offeror has waived communication of acceptance (as is the case with shrink-wrap licences) the contract will be presumed to have come into being where the offer was accepted, unless the contract itself stipulates to the contrary.

electronic communication

The use of electronic communication makes it difficult to determine the time when and place where an Internet contract will be concluded. Neither the expedition theory, nor the information theory provide adequate guidance. One cannot simply equate e-mail and other communications on the Internet with direct and instantaneous forms of communication such as the telephone (see AJ Kerr *The Principles of the Law of Contract* 5 ed (1998) 110; Marco van der Merwe 'Cybercontracts' (1998) 6 *Juta's Business Law* 138 at 141).

uncertainty

The *Green Paper on E-Commerce* draws attention to the uncertainty created by the use of electronic communication techniques and raises the question whether legislation should be introduced to regulate the time and place of the conclusion of electronic contracts.

UNCITRAL Model Law

The UNCITRAL Model Law on Electronic Commerce does not establish any conflict of laws rule. It does however, provide clarity on the time and place of dispatch and receipt of electronic messages. In the absence of agreement to the contrary, the time of dispatch of an electronic message is the time when the message enters an information system outside the control of the originator (article 15(1)). The message is deemed to be dispatched at the place where the originator has her place of business (article 15(4)). The time of receipt of an electronic message is determined as follows: If the addressee has designated an information system for the purpose of receiving messages, then receipt occurs when the message enters that information system; if the message is sent to another information system other than the designated system, then receipt occurs when the message is retrieved by the addressee. If the addressee has not designated an information system, receipt occurs when the message enters an information system of the addressee (article 15(2)). A message is deemed to be received where the addressee has her place of business (article 15(4)). If the originator or addressee does not have a place of business, reference is made to the place of habitual residence (article 15(5)).

EC Directive

The European Directive on Electronic Commerce does not contain specific provisions for determining the time at which online contracts are concluded. But it does provide that an order and an acknowledgement of receipt are deemed received when the parties to whom they are addressed are able to access them (article 11(1)).

UETA

In the United States of America, UCITA provides that an electronic contract is formed when an electronic acceptance is received (section 203). It also provides a framework for determining the law to be applied to an online licence. In the absence of agreement to the contrary, a transaction is governed by the place with the most significant relationship to it (section 109). However, in the case of electronic transactions or online transfers of information, the transaction is governed by the law where the licensor is located when the agreement is made (section 109). While the electronic environment supports such a qualification, it has the result of enhancing the power of the licensor and favours her freedom to select substantive rules governing liability (see Gail Evans *op cit* at 278–279). In the case of a transaction for physical delivery of a tangible copy to a consumer, the applicable law is the law of the place where delivery is made (section 109).

Canada

The Canadian Uniform Electronic Commerce Act does not establish any conflict of laws rule. However, it follows the UNCITRAL Model Law by establishing rules on the time and place of dispatch and receipt of electronic messages. In the absence of agreement to the contrary, the time of dispatch of an electronic message is the time when the message enters an information system outside the control of the originator. If the originator and the addressee are in the same information system, the electronic message is sent when it becomes capable of being retrieved and processed by the addressee (section 23(1)). The message is deemed to be sent from the originator's place of business (section 23 (3)). The time of receipt of an electronic message is determined as follows: If the addressee has designated an information system or uses an information system for the purpose of receiving messages of the type sent, then the message is presumed to be received by the addressee when it enters that information system and it is capable of being retrieved and processed by the addressee; if the addressee has not designated or does not use an information system for the purpose of receiving messages of the

type sent, then the message is deemed to be received when the addressee becomes aware of the message in the addressee's information system and it is capable of being retrieved and processed by the addressee (section 23(2)). A message is deemed to be received at the addressee's place of business (section 23(3)). If the originator or addressee does not have a place of business, reference is made to the place of habitual residence (section 23(4)).

Australia

The Australian Electronic Transactions Act contains similar provisions. It provides that, in the absence of agreement to the contrary, the time of dispatch of an electronic communication is the time when the message enters a single information system outside the control of the originator (section 14(1)). If an electronic communication enters successively two or more information systems outside the control of the originator, dispatch occurs when it enters the first of those information systems (section 14(2)). The message is deemed to be sent from the originator's place of business (section 14(5)). If the addressee has designated an information system for the purpose of receiving electronic communications, then the communication is deemed to be received by the addressee when it enters that information system (section 14(3)). If the addressee has not designated an information system for the purpose of receiving electronic communications, then the communication is deemed to be received when it comes to the attention of the addressee (section 14(4)). An electronic communication is deemed to be received at the addressee's place of business (section 14(5)). If the originator or addressee does not have a place of business, an electronic communication is deemed to be dispatched or received at the place where she ordinarily resides (section 14(6)).

Warranties and limitation of liability

express and implied warranties

A warranty may be express or implied. An express warranty is any undertaking or promise that is intended by the parties to become a term of the contract. A warranty will be implied where the circumstances indicate that the parties intended it to be a term of their contract. A warranty may also be implied by law.

Computer software licences typically contain limited express warranties. The software producer may warrant that the

computer software

software is free from defects and provide for the replacement of defective materials within a limited time period after the date of purchase. In addition the producer may warrant that the software is of a specific and identifiable standard and that the program will perform in substantial compliance with the accompanying materials. The producer may also offer free updates and error notifications. Such express warranties are usually extended only to the user who has returned a registration card to the software producer (see Mark L Gordon *Computer Software: Contracting for Development and Distribution* (1986) 401).

exemption clauses

The typical software licence also contains an exemption clause which disclaims any further warranties, express or implied, relating to the performance, quality or fitness for use of the computer program or accompanying written materials and excludes any liability for any loss or damage of any kind (other than personal injury or death) arising from the use of the computer program or accompanying written materials or from errors, deficiencies or faults in it, whether or not such loss or damage is caused by negligence or otherwise.

wilful default

Each jurisdiction has its own rules about the degree to which implied warranties or liability for damages may be limited or excluded, and the formalities required to make such exclusion or limitation effective. In South African law a party may exempt himself from liability, even for his own wilful default (see *Galloon v Modern Burglar Alarms (Pty) Ltd* 1973 (3) SA 647 (C) at 650; *Micor Shipping (Pty) Ltd v Treger Golf and Sports (Pty) Ltd* 1977 (2) SA 709 (W) at 713), but an exemption clause may not validly exempt a contracting party from intentional misconduct (see *Wells v SA Alumenite Co* 1927 AD 69 at 72; *Hughes v SA Fumigation Co (Pty) Ltd* 1961 (4) SA 799 (C) at 805). A method that our courts have employed to confine exemption clauses within reasonable bounds, is to interpret them restrictively (see Christie op cit at 214). This method is particularly useful where the legal grounds for liability from which the exemption is sought are not specifically set out. The court will examine the nature of the contract to decide what legal grounds for liability would exist in the absence of the clause (strict liability, negligence, or gross negligence), and the clause will then be interpreted to exempt the party concerned only from the ground of liability for which she would otherwise be liable and which involves the least degree of blameworthiness (see Christie op cit at 215; *Essa v*

Divaris 1947 (1) SA 753 (A)).

negligence

A computer program developer will probably not be subject to strict liability in the case of the development of a mass-produced consumer program, and the minimum degree of blameworthiness for which she would be liable is negligence. The situation would, of course, be different, for example, where a sophisticated computer program is developed for medical diagnostic procedures or some other potentially harmful application.

UCITA

In the United States, warranty limitations are controlled by strict consumer protection laws, and warranty disclaimers must be prominently and conspicuously displayed. A limitation of liability and damages is allowed by law, but must also be conspicuously displayed (see Gordon *op cit* at 402). UCITA establishes a warranty structure for computer software licences. It provides that express warranties are created by any statement or promise that becomes part of the parties' agreement (section 402). It also provides that a demonstration of program prior to any purchase creates an express warranty that the program will conform to the performance of the demonstration (section 402). Generally, express warranties cannot be disclaimed. UCITA also creates a number of implied warranties. The licensor impliedly warrants that the software as delivered is free of any infringement claims (implied warranty of non-infringement), that she will not interfere with the licensee's enjoyment of the software (implied warranty of non-interference), that there is no inaccuracy in any informational content caused by the licensor's failure to perform with reasonable care (implied warranty of informational content), that the software corresponds in quality to ordinary programs of its type (implied warranty of merchantability), that the software is fit for the licensee's purposes (implied warranty of fitness), that in certain cases the components provided or selected by the licensor will function as a system (implied warranty of system integration) (sections 401–405). Unlike express warranties, implied warranties may be disclaimed by agreement.

Unenforceable terms

Terms in licence agreements may vary greatly depending on the nature of the intellectual property licenced and the business

know-how

restrictions

activities of both the licensor and licensee. In its simplest form a licence is merely an authorization or dispensation to the licensee to use the licensed property. In the case of a patent, the licence may include the transfer of technology or know-how to enable the licensee to manufacture or otherwise exploit the patent. Such licences frequently include a grant-back clause which requires the licensee to transfer to the licensor rights in respect of any improvements in technology or consequent patents acquired by the licensee. A licence may also include permission to use the licensor's designs and trade marks, make provision for quality control and for audits to be carried out on a regular basis (see Cornish op cit paras 7-21–7-26). Frequently licences impose restrictions on the licensee's use or exploitation of the property. A licence may, for example, impose territorial restrictions. In addition to granting the licensee the right to use the intellectual property in a particular geographical area, it will impose on the licensee an obligation to respect the exclusivity of other licensees in their territories. A licensor may also dictate prices, maximum quantities of production and even restrict the types of goods for which licensed technology may be used and require that the licensee obtain other goods from licensor alone (Cornish op cit para 7-27). It has also been practice to include a no-challenge clause in terms of which the licensee undertakes not to challenge the validity of the intellectual property right during the currency of the licence (Cornish op cit para 7-28). These and other restrictive terms may amount to unenforceable restraints of trade or prohibited practices in terms of the South African Competition Act 89 of 1998.

restraints of trade

The general principles of the South African law of contract apply to all online licences. Generally, our courts have favoured the principle of freedom of contract and have held that competition restraints are in principle enforceable. However, where a restraint is contrary to public policy or the public interest, it will not be enforced. The reasonableness of the restraint as between the parties is a factor which the courts will take into consideration in deciding whether the restraint is contrary to public policy (*Magna Alloys and Research (SA) (Pty) Ltd v Ellis* 1984 (4) SA 874 (A); *Sasfin (Pty) Ltd v Beukes* 1989 (1) SA 1 (A); *Sunshine Records (Pty) Ltd v Frohling and others* 1990 (4) SA 782 (A)). Terms in a licence agreement which place an unfair burden on licensees by altering existing law in significant ways or which prohibit a licensee from challenging the validity of the licensor's intellectual property right may well be found to be

contrary to public policy and hence unenforceable.

Competition Act

Certain competition restraints may also amount to prohibited practices in terms of the Competition Act. The Act prohibits a number of horizontal and vertical restrictive practices as well as the abuse of a dominant position. It applies to all economic activity within, or having an effect within, South Africa. The Act applies to the exercise of intellectual property rights and even Internet licences, which involve a foreign element, may attract remedies under the Act. At present, there is uncertainty as to the extent to which the exercise and exploitation of intellectual property rights will contravene the Act.

restrictive practice

abuse of dominant position

Although a certain tension exists between intellectual property law and competition law, it is submitted that the Competition Act is not concerned with the exercise and exploitation of intellectual property rights in the normal course of events. However, conduct which goes beyond normal exercise and exploitation and takes undue advantage of the intellectual property monopoly may well amount to a restrictive practice or the abuse of a dominant position. Terms in a licence which fix prices or other trading conditions, impose maximum quantities of production or divide markets by allocating customers, suppliers, territories or specific types of goods or services will amount to prohibited restrictive practices. Grant-back and no-challenge clauses may also be prohibited under the Act (sections 4 and 5).

block exemption

The Competition Commission is specifically empowered to exempt from the prohibitions of the Act agreements or practices that relate to the exercise of intellectual property rights (section 10(4)). A block exemption which permits and delineates the normal exploitation of intellectual property rights would provide the necessary guidance in this regard.

patent licences

Some guidance may be obtained from the Patents Act. Section 90 lists a number of terms or conditions which are regarded as invalid if included in patent licence (see TD Burrell *Burrell's South African Patent and Design Law* 3 ed (1999) 305). A term, for example, which prohibits a licensee from purchasing or using articles supplied by a person other than the patentee or compels the licensee to obtain other unpatented articles from the patentee is null and void. (section 90(1)). But a term which prohibits a licensee from selling any goods other than those of

the patentee or reserves for the licensor the right to supply new parts for the patented article is permissible (section 90(2)).

Microsoft litigation

Although intellectual property rights do not automatically bestow market power on the owner in a relevant market (although intellectual property rights confer the power to exclude with respect to a specific product, there are normally sufficient substitutes to prevent the exercise of market power) certain licensing practices may be indicative of an abuse of a dominant position. A good example can be found in the allegations by the United States Department of Justice against Microsoft Corporation. The Justice Department alleged that Microsoft occupies a dominant position in the market for personal computer operating systems. Its *Windows* operating system is used on 80 per cent of all Intel-based personal computers in the United States of America. To protect its *Windows* monopoly and to extend its operating systems monopoly into other software systems, Microsoft is alleged, amongst other things, to have entered into a series of anticompetitive agreements. Its conduct included tying other Microsoft software products to *Windows*, exclusionary agreements precluding its licensees from distributing, promoting, buying or using products of Microsoft's competitors and exclusionary agreements restricting the right of its licensees to provide services to its competitors. To eliminate competition from Netscape's *Navigator* browser, Microsoft is alleged to have tied its *Internet Explorer* browser to *Windows* by requiring PC manufacturers, as a condition of obtaining licences for *Windows*, to agree to license, pre-install and distribute *Internet Explorer* on every *Windows* PC, to adopt the uniform boot-up sequence and desktop screen specified by Microsoft and to prohibit any changes that would remove from a PC any part of Microsoft's software or that would add to the PC any competing browser in any more prominent way than Microsoft requires *Internet Explorer* to be presented (see Port et al op cit at 406–412).

Conclusion

The *Green Paper on E-Commerce* has focussed attention on a number of uncertainties regarding electronic licensing. In the first place uncertainty exists as to the validity and enforceability of online licences. Although an analysis of the general principles of South African law of contract indicate that a online licences

online licences enforceable

comply with the basic requirements of an enforceable contract, the enforceability of such agreement has not been tested by a South African court of law. Uncertainty also exists as to the standards to which electronic documents must conform in order to satisfy any such prescribed formal requirements, the time when and place at which electronic licences are concluded and the attribution of electronic communications. Other issues to be addressed include choice of law, warranties, limitation of liability and unenforceable terms.

legislative intervention

Unfortunately, the *Green Paper on E-Commerce* does not offer any solutions. It is clear that conventional rules are no longer adequate to deal with situations which have been created by the borderless marketplace of electronic commerce. Legislative intervention is therefore required as a matter of urgency to provide clarity on these issues and to provide an appropriate regulatory framework for conducting business on the Internet. In this regard the legislature should take note of the UNCITRAL Model Law as well as recent developments in the European Union, the United States of America and a number of other countries which have adopted legislation to promote the development of electronic commerce. The long-awaited Electronic Transactions and Communications Bill (to be published in the last quarter of 2001) will address many of the legal impediments to the digital licensing of intellectual property rights. However, it is hoped that this Bill, in removing South African legal barriers to electronic contracting, will also be the first step in adapting South African intellectual property law to the digital age.