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Breach of IP Software Licence: Welcome Clarification from the CJEU

Following a request for a preliminary ruling from the Court of Appeal of Paris (France), the Court of Justice of the European Union (the "CJEU") clarified, in a judgment of 18 December 2019[1], that the violation of a clause of a software licence agreement relating to intellectual property rights shall be treated as an *"infringement of intellectual property rights"* within the meaning of Directive 2004/48/EC[2] (the "Enforcement Directive") which implies that the holder of the author's rights (economic rights) over such software must be able to benefit from the guarantees provided for by the Enforcement Directive (which includes the infringement action).

This ruling should put an end to a trend resulting from certain national court decisions[3] in which it was judged that a breach of a software licence agreement relating to intellectual property rights could not lead to the engagement of tortious liability (*responsabilité délictuelle*) and, therefore, that the infringement action was not the appropriate action for a right-holder to initiate before the courts when facing a violation of the terms of a software licence agreement by a counterparty.

In the case at hand, the software publishing company, IT Development, had granted a licence to the telephone operator, Free Mobile, for the use of a software package. Considering that Free Mobile had modified the source code of its software in breach of the licence agreement, the software publisher brought an action against Free Mobile for infringement (under French law, author's rights infringement is based on tortious liability). In line with the case law mentioned above, the first judges declared the claims brought by IT Development based on Free Mobile's tortious liability inadmissible. According to them, the software publisher company should have initiated an action for contractual liability.

For the Court of Appeal of Paris, the question was not so straightforward. On the one hand, the Court of Appeal acknowledged the existence of the principle of non-cumulation under French law according to which (i) one person cannot hold another person liable in contract and tort for the same acts, and (ii) tortious liability is excluded in favor of contractual liability where the damage suffered by one of those persons results from non-performance or improper performance of a contractual obligation. On the other hand, the Court of Appeal underlines that the French rules regarding the infringement action do not refer to the existence or the absence of a contract between the parties and do not differ depending on whether or not such a contract exists.

In light of this, the Court of Appeal decided to stay the proceedings and refer to the CJEU for a preliminary ruling. The question[4] was whether the "Enforcement Directive" and Directive 2009/24/EC[5] (the "Software Directive") *"must be interpreted as meaning that the breach of a clause in a licence agreement for a computer program relating to the intellectual property rights of the owner of the copyright of that program falls within the concept of 'infringement of intellectual property rights', within the meaning of the [Enforcement Directive], and that, therefore, that owner must be able to benefit from the guarantees provided for by that directive, regardless of the liability regime applicable under national law"*.

This is a crucial issue as the calculation of the financial compensation will be different depending on the liability regime invoked. Indeed, pursuant to the civil liability regime (tortious liability), the claimants shall obtain full reparation of their damage. Liability caps or limitations that would be provided for by a clause of a software licence agreement would not apply[6]. Moreover, the rules governing jurisdiction, the evidence that are available or the statutes of limitation may differ depending on the liability sought by the claimant (tortious liability or contract liability).

Responding positively to the question referred to it, the CJEU points out that the Software Directive does grant the right-holder the exclusive right to authorize or prohibit the modification of a software (in particular the adaptation or transformation of the source code) and does not make such protection dependent on whether or not the alleged violation of rights is a breach of a licence agreement.

Moreover, the CJEU underlines that the Enforcement Directive specifies that it applies to *"any infringement*

of intellectual property rights"[7] which shows that a breach of a contractual clause relating to the exploitation of an intellectual property right shall also be covered. The CJEU has thus clarified that the right-holder that entered into a licence agreement with a third party is entitled as any other holder of intellectual property rights to benefit from and use the measures, procedures and remedies set out in the Enforcement Directive (including the infringement action).

This ruling from the CJEU shall be approved, as the approach taken is fair and in line with the directives mentioned above. A holder of intellectual property rights shall not be disadvantaged only because it took the decision to organize contractually the exploitation of its intellectual property rights.

It is interesting to note that the CJEU does not rule on the nature of the liability regime that shall apply in the event of a violation of author's rights (economic rights) over a software by a licensee. The CJEU states on the contrary that such determination falls within the competence of the Member States. However, the Member States will not have much room for maneuver, as the liability regime applicable shall not imperil the effective protection granted to the holder of author's rights (economic rights) over a software by the Enforcement Directive and the Software Directive.

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1. Case C-666/18, IT Development SAS v. Free Mobile SAS.
2. Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights.
3. This trend in case law was identified in France. In Luxembourg, the *Tribunal d'arrondissement* declared admissible an infringement action based on the violation of certain provisions of the Law of 18 April 2001 on the author's rights, related rights and databases, as amended initiated by the owner of author's rights over a software against its counterparty even though the parties were bound by a licence agreement. The claimant, however, did not invoke a violation of a specific clause of the licence agreement. In this case, the law of the licence agreement (the laws of the State of Pennsylvania in the United States of America) was disregarded. The Luxembourg judges indicated that the law chosen by the parties to govern their contractual relationships regarding the sale of software licences to third parties shall not govern the action for damages arisen out of author's rights infringement, which are purely tort actions. They confirmed that the Luxembourg law (*i.e.*, the law of the country in which the protection is sought) shall apply to the case (Civil Judgement No. 49/2014 (8th chamber), 4 Mar. 2014). This was confirmed by the Court of Appeal in a decision of 30 Mar. 2017 (No 41358).
4. The question was reformulated by the CJEU.
5. Directive 2009/24/EC of the European Parliament and of the Council of 23 Apr. 2009 on the legal protection of computer programs.
6. It is true however that the parties to a licence agreement/Software as a Service Agreement (SaaS) commonly accept not to limit their liability to the other party in the event of author's rights infringement (provided that certain conditions are complied with).
7. Article 2(1) of the Enforcement Directive.