Training Contract 2010

Answer to Question 1

Task	Answer
1(a)	"I carried out a search for cases whose judgments appeared from July 2010 as well as any legislative changes which might affect the judgment made in the *Navitaire Inc* v *easyJet Airline Co Ltd* case."
1(b)	"The result of my search is the case of *SAS Institute Inc* v *World Programming Ltd* [2010] EWHC 1829 (Ch), judgment handed down on 23 July 2010."
2	(Formatted to separate out sentences...) "*(Sentence 1)* You asked me about whether there still no problem with the client producing new software which is functionally etc equivalent to some other existing software. *(Sentence 2)* A quick check indicates that this is still the position (a recent court judgment has confirmed this). *(Sentence 3)* But the case also decided that whether the functionality can be copied without infringing copyright needs considering by the European Court of Justice. *(Sentence 4)* Because it can take several years before a judgment is provided by the ECJ (at a minimum 18 months), the client may not know until it has almost completed its work on the new software whether it there is any issue with what it has done. *(Sentence 5)* If the ECJ changes the law (that copyright is infringed if functionality is copied) then the client may be unable to legally to licence its software to its client (despite contractual obligations to do so, or providing warranties that its software will not infringe the intellectual property rights of others). *(Sentence 6)* It is not possible to work out the implications for the client yet, but since development has not started, the client might consider 'avoiding' action now, such as renegotiating the contract with the airline, changing the specification with the agreement of the airline (so that the functionality is not copied), or if not possible obtaining insurance to cover any damages it might have to pay to the airline (for not being able to deliver the software it was contractually obliged to do so)."
3	What follows is not a model answer. What you will find are: (a) some key points in the question; (b) an outline structure of an answer; and (c) a detailed outline of points, from which an answer could be summarised. Given that an answer needed to be no more than 1 A4 side of paper, and given the views of the client, ideally it should focus on the practical implications for the client, and not the law. These are set out at length to give an idea of what might be involved

in helping a client in the situation set out in the facts. Any written answer would be confined to bullet points. The section on the law, ideally, could be omitted altogether.

Some particularly key points to note from the question

The following are the key points, in our opinion, which set the scene for an answer:

1. The client has *already* entered into a binding contract with the airline at the time client consults Rachel À la Pointe. (Quote from question: "The client has just entered into a contract…".)

2. Although the question does not state with absolute certainty that the client is contractually bound to produce a replica piece of software, there is a strong implication that is what it has to do. (Quote from question: "The airline wishes the new online booking system to be functionally equivalent to the existing online booking system. Also the airline requires that the new online booking system looks and operates exactly the same as its existing online booking system. That is the screens, graphics, keystrokes etc in the new software should be exactly the same as the existing software. In this way, the airline hopes, that there will be little need to retrain its employees to use the new software.")

3. The client contact hates too much detail/legal analysis. (Quote from question: "the client contact hates detail and likes things to be simple. The reason the client contact got rid of his old lawyers was that all their advice was lengthy, full of quotes from case-law and legislation and never provided clear answers to his questions. He hates this approach. He first met Rachel ÀLaPointe at a software developer conference where she was speaking, and liked that she was able to put things clearly and simply, and provide straight answers to direct questions, even where legally clear answers were impossible".)

4. Rachel À la Pointe and the client contact know the law (they do not really need it explained to them in an answer: Rachel is an IT/IP lawyer, and the client contact has read the leading judgment). (Quote from question: " When the *Navitaire Inc* v *easyJet Airline Co Ltd* judgment was issued, despite his hate of detail, he took the time to read it as the facts in that case were so close to what his company does".)

5. The client's investors need re-assurance as to their five year investment. (Quote from question: "The investors wish to be reassured that their investment over the next five years will not be wasted".)

A suggested structure for an answer

The following is a suggested structure of points that should be included in an answer:

1 *What the client is trying to do?* (what they have agreed to do following their entering into a contract, ie create new software which looks like and operates like their client's existing software).

2 *On what issue is advice sought or being provided?* (whether it is possible to replicate the functionality of the new existing software in the new).

3 *What is the current legal position*? (the it is possible to replicate the

functionality and the ideas contained in the user interface of an existing piece of software in a new piece of software, as long as no code from the existing software is used, etc)

4 *What is the problem?* (recent English case has not altered current law, but the judge referred the issue of whether functionality of software can be copied to the European Court of Justice).

5 *Why is the reference ECJ to a problem?* (because the ECJ typcically takes at least 18 months before it produces a judgment, and after it has done so, there may be further litigation in England before the client will know whether the current law is still valid or not. Ie the client will not know until near the end of the development or during deployment whether it can legally licence or assign the software to its client).

6 *What are the implications for the client?* (list the possible alternatives to there being a change in the law, there not being a change in the law, or if there is a change but it is not certain exactly what it means for the client, or if the answer given by the ECJ leaves everyone still in doubt).

7 *What can the client do between now and the time of any judgement?* (a list of the practical things the client can *reasonably* do or try to do)

Some detailed points applied to the above structure

Note: a 'real' answer would not use these headings.

Note. The points made below, obviously, take far longer than 1 side of A4. But the aim is to show the possible range of responses to the facts.

[*date*]

[*the client name*]

What the client is trying to do?

The client has entered into a contract with [*name of airline*] to develop an online booking system software. The new software is to replicate exactly the existing software the airline currently uses. It is to be, in effect, a clone of the existing software.

On what issue is advice sought or being provided?

Either

Whether it is possible to replicate the functionality etc of the existing software in the software that the client is produce.

Or

Whether it is still possible to replicate the functionality etc of the existing software in the software that the client is produce.

What is the current legal position?

Summary

It is possible to replicate the functionality and the ideas contained in the user interface of an existing piece of software in a new piece of software, as long as no code from the existing software is used, etc. Also it is possible to use keystroke commands from the old software, as these are likely to not be protectable at all by copyright. Also combination of commands can be copied, as they are likely to be considered a programming language. There may be issues with replicating graphical elements, as these are protected by a 'different' type of copyright

Outline of legal position

Points:

(a) basic dichotomy between ideas (not protected by copyright) and expression of ideas (protected by copyright). See TRIPS Agreement, Section 1, Act 9.2: 'Copyright protection shall extend to expressions and not to ideas, procedures, methods of operation or mathematical concepts as such'.

(b) Software Directive (Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs), Article 1(2)): 'Protection in accordance with this Directive shall apply to the expression in any form of a computer program. Ideas and principles which underlie any element of a computer program, including those which underlie its interfaces, are not protected by copyright under this Directive'. Also 13th and 14th recitals to the Software Directive: 'Whereas, for the avoidance of doubt, it has to be made clear that only the expression of a computer program is protected and that ideas and principles which underlie any element of a program, including those which underlie its interfaces, are not protected by copyright under this Directive' and 'Whereas, in accordance with this principle of copyright, to the extent that logic, algorithms and programming languages comprise ideas and principles, those ideas and principles are not protected under this Directive'.

(c) also case law has confirmed the position stated above under 'summary'. Principally in *Navitaire Inc* v *easyJet Airline Co Ltd* [2004] EWHC 1725 (Ch). Also *Nova Productsions Ltd* v *Mazooma Games Ltd* [2007] EWCA Civ 219. And most recently in *SAS Institute Inc* v *World Programming Ltd* [2010] EWHC 1829 (Ch).

What is the problem?

The *SAS Institute Inc* case also decided that the issue of whether one program can replicate the functions another needs considering by the European Court of Justice. That is whether

(a) the replication of functionality amounts to the expression of a computer program (and therefore an infringement of copyright), or

(b) the replication constitutes the ideas and principles which underlie any element of a computer program, (and therefore not protected by copyright).

The most recent case is asking for an interpretation of EU law governing copyright protection of software, on which UK copyright law is based (in particular Art 1(2) of the Software Directive). The judge in the *SAS Institute Inc* v *World Programming Ltd* did not confine himself to making a reference to the ECJ purely on the question of functionality. He has asked the ECJ to consider whether interfaces and programming languages are protected by copyright from being copied (see (i) to (iii) of paragraph 332 of the judgment).

Why is the reference to the ECJ a problem?

A reference to the ECJ normally means that it is 18 months before a judgment is obtained. However it can take 3 years. Also the ECJ will be interpreting EU law. This might mean that the English courts will need to consider the ECJ ruling before a definite position is as far as UK copyright is reached. It could take 3-5 years before there is certainly.

The practical result of the reference to the ECJ can mean that at a point where the client has invested substantially in the creation of the new software (around the 2 to 3 year point) they may have a program which they can not licence or sell to the airline (if the ECJ comes to a different view as to the law then the English Courts). The client is facing uncertainty.

What are the implications for the client?

It is not possible, at present, to state with certainty the precise implications for the client. The client needs to prepare for the following reasonably possible outcomes:

1 The ECJ decides that the (consistent) view of the English courts is wrong. For software already written and either licensed or sold but which is functionally equivalent to other software, there are 3 reasonably foreseeable possibilities:

(a) does the software becoming automatically infringing?

(b) the software is not infringing because it was created at a time when was lawful to do so.

(c) the software is not infringing because it was created at a time when it was lawful to do so but to further develop the software would be infringing after the date of the ECJ judgment (or any further English litigation).

2 If work on the software was started but not completed at the time of a ECJ or English court judgment, would the licensing or sale of it be infringing after the date of any judgment (software developers deemed to be on notice that there might be a change of the law?)

3 The ECJ decides that the English court's view of the law is correct.

4 The worst case scenario for the client in many ways is that the judgment of the ECJ is so opaque and unclear that extensive further litigation in the English courts is needed (ie back to the High Court, then to the Court of

Appeal and then to the Supreme Court).

Accordingly, *at present*, it is not possible to provide the re-assurance the client is seeking. However, it is fortunate that the client has not (apparently) actively started work on the new software, as it will be possible for it to start taking some steps to overcome or plan for the potential problem (see next section).

What can the client do between now and the time of any judgement?

1. *First thing, read the contract!* The contract between the client and the airline may have provisions which deal with matters such as:

   (a) *break clauses*: if the parties cannot reach agreement on some aspect of the design or specification of the new software there may be a break clause;

   (b) *clauses dealing with infringement if intellectual property rights of others:* what is to happen if the new software is found to be in breach of the intellectual property rights of a third party (such as the existing supplier to the airline) because of a change in the law;

   (c) *what binding promises made in relation to the new software:* whether the client has need to provide any binding promises (warranties, representations) as to the whether the new software will infringe the intellectual property rights of a third party. And if there any limitations on such promises. This type of provision (whether it exists at all, in whose favour is it written, etc) very much depends on who has the stronger bargaining position under the contract.

   etc. The facts do not disclose whether there are any provisions to deal with the above or other possible ways for the client to relieve it from its obligations. But, since the client is a new client the contract should be first checked carefully as to what it actually says.

2. *Let the airline know of the problem* and

   (a) *change the specification*: agree with the airline to a change the specification for the new software so that it is not functionally equivalent (if the specification not already written).

   This is likely to have severe costs implications for the airline, based on the facts given, that the airline wishes to minimise the costs of using the new software.

   (b) *re-negotiate the contracts*: negotiate a new version of the contract, if changing the specification is not sufficient to remove the obligation to make the new software functionally equivalent to the existing software;

(c) *delay the development of the software*: seek the agreement of the airline to change the timing as to when the development of the software will start and finish. A wait and see approach. The facts do not state whether the times for the development of the software are of the essence, or whether the amount the client will be paid are dependent on producing the software in time.

A slight variation on this is that before the ECJ produces its judgment the Advocate General produces an opinion. Although not always followed, it can provide a guide as to the likely outcome.

(d) *speed up development of the software*: seek the agreement of the airline so that the software is developed (and possibly) deployed more quickly then the contract provides for. So that it is fully deployed before the likely date of the judgment. But this may not be technically feasible, may cost too much for the client (ie the extra programming etc resources needed may not be available in the short term at a sensible price).

(d) *find out whether the existing software can be used longer*: establish (if not already done) whether there any issues with the airline continue to use the existing software after the end of five years (ie the intended date for the complete deployment). If the airline is licensing the existing software, the licence might be expiring, no longer be available or the price for a new licence may no longer be affordable (the existing supplier may want to charge too much).

Negotiating point: The airline may not need to agree to any of the above (ie it can rely on the provisions of the contract). However, the client can argue, that if the ECJ overturns the English court's view of the law, its software will be in breach of the copyright of the existing supplier to the airline, however, the airline will not be any better off, because it too cannot legally use the new software.

3. *Contact the existing software supplier* and seek a licence from them so that the client can replicate the functions of the existing software. The existing supplier may be aware of the plans of the airline, but in any case this is likely to be a strategy to follow only with the knowledge of the airline. Although for the existing supplier there may little incentive to allow this, or only allowed to do this at an exorbitant price.

4. *Contact the client's insurers*: The client should consider contacting their insurers to establish:

(a) whether the existing insurance policy will cover the eventuality envisaged by the facts;

(b) to forewarn the insurers that there might be a claim;

	(c) to investigate the likely cost of taking out insurance to cover the likely damages that might be payable if the law changes and the airline refuses to change its position. 5. *Carry out some in depth legal analysis of particular legal issues*. Such as the doctrine of frustration, duty of the airline to mitigate its losses, et	