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Shrinkwrap Licences

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1. INTRODUCTION

The term "shrinkwrap licence" is widely used in connection with computer software. In fact, almost all computer software, other than that which has been customised as part of a separate express contract, is transferred to the user under a shrinkwrap licence.

The term broadly covers a licence, the terms of which appear enclosed with a particular piece of software through a clear plastic wrapping or is alluded to on the package containing the software. Terms such as "box top licences" and "clickwrap licences" are also used to describe essentially the same concept; a standard set of licence terms and conditions which a software owner seeks to impose on the user of the software notwithstanding that the user and the software owner will not be in a direct contractual relationship.

Not only has the software industry developed on the basis of this type of licence, cases have tended to assume the efficacy of such licences.

In the Autodesk case (*Autodesk Inc and Anor v Dyason and Ors - 15IPR1*), Northrop J proceeded on the basis that the shrinkwrap licence contained in the AutoCAD package was enforceable. One of the subsidiary issues in that case was the nature of the licence which a purchaser had in respect of the AutoCAD program. Specifically it was argued by Autodesk Inc that the licence was limited to a licence to run the AutoCAD program only with the AutoCAD lock. Northrop J rejected this argument in the following terms:

> *"The software licence does not refer to any such limitation... The licence granted to use AutoCAD, at the most, is limited by the conditions set out in the software licence."*

Continued on page 3 ☞

In this issue...

Continued from page 1

In that case the software licence was contained within the packaging for the AutoCAD program. The licence was in a sealed package within the outer packaging and it was impossible to read the notice on the licence before opening the package.

This paper discusses the effectiveness of such licences as there are a number of cases which have raised doubts over them, particularly where there is a chain of distribution from the software producer to a wholesaler or retailer and then to the user. Certainly it will be seen that when traditional legal analysis is applied to those licences their legal effectiveness is called into doubt.

The cases are from the United States and the United Kingdom. In the case of the United States, the cases must be considered cautiously in the light of the Uniform Commercial Code which establishes certain rules to be followed when determining when a contract has been entered into. These rules differ from the traditional common law rules. However, the main principles remain relevant.

In this paper it is assumed that the software producer will also be the copyright owner.

2. THE RATIONALE FOR SHRINKWRAP LICENCES

There are a number of reasons why a copyright owner wishes to have specific licence terms and conditions imposed on a user of the software. Of the more important are the following:

2.1 The software producer will wish to limit how the software is used or even extend the one copy for the back up purposes exception in the Copyright Act 1968.

2.2 The software producer may wish to be able to terminate the licence in certain circumstances.

2.3 The software producer may not want a user to be able to assign or sublicence its licence to reproduce the software for the purposes of running the computer program which is comprised of the software.

2.4 The software producer may wish to prohibit reverse engineering and therefore disassembly and decompilation of the object code.

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2.5 The software producer may wish to disclaim warranties such as those implied by the various State and Territory *Goods Acts* or *Trade Practices Act 1974* (Cth.) and to limit its liability.

2.6 The software producer might wish to have the data on the program kept confidential (e.g. databases).

If there are no terms and conditions of licence imposed on an end-user, then the conclusion that there is an outright sale of the software on the particular medium on which it is carried subject only to the terms and conditions of the contract between the ultimate supplier and the user is irresistible. The ultimate supplier is unlikely to treat a sale of software as anything other than a sale of goods and therefore is unlikely to have terms and conditions which limit the use to which the software itself can be put. The use to which the software may then be put is only restricted by the limits imposed by copyright law.

3. THE TRADITIONAL LEGAL ANALYSIS

Traditional legal analysis requires that the terms and conditions of a shrinkwrap licence are included in either the contract for the supply of the software between the ultimate supplier and the user or between the copyright owner and the user. Generally speaking, the courts look for an offer which is made by one party to the other on certain terms and for acceptance of that offer by the other party. If the party receiving the offer purports to accept on the basis of different terms then the law regards that as a counter offer available for acceptance by the first mentioned party. The difficulty with software is that, very often, the contract for the sale of the medium on which the software subsists is completed before the user is made aware of the terms and conditions of licence relating to the software contained on that medium. Thus, on a traditional analysis, those terms and conditions of licence would be excluded from the contract for the sale of the medium.

Similar problems arose when the courts were first called on to deal with the so-called "ticket cases". These were cases where a person might purchase a ticket, such as for a car park, and the car park operator would try to incorporate extensive terms and conditions which were not contained on the car parking ticket. Similar problems arose with dry cleaning tickets and ferry tickets. At the end of the day, the courts allowed the inclusion of the service supplier's terms and conditions where the supplier did everything reasonable to bring those terms and conditions to the notice of the purchaser before the contract was entered into. These types of transactions have more recently been analysed as providing for the purchaser to be bound unless the purchaser promptly objects to the terms and conditions after receiving the ticket (see McHugh JA in *Empirnall Holdings Pty Ltd v Machon Paull Partners Pty Ltd (1988) 14NSWLR 523)*. It should be noted that these cases concern situations where there is no interposed third party between the two contracting parties.

4. LEGAL ANALYSES OF SHRINK WRAP LICENCES

In both the United States and the United Kingdom the courts have had occasion to analyse shrinkwrap licences—not always with the result which the software industry and the drafters of shrinkwrap licences would like. In considering the cases it is important to keep in mind the factual difference where the copyright owner is the ultimate supplier and those where there is an interposed third party reseller.

(a) United States

In *Step-Saver Data System v Wyse Technology (939F.2D91(3dCir.1991))* the Court of Appeals held a shrinkwrap licence to be unenforceable. In that case, a program called Multilink Advanced was supplied by the copyright owner to Step-Saver pursuant to an order given over the telephone. Whilst each telephone order was followed by a purchase order and an invoice, none of these documents indicated that the transaction was anything other than an outright sale and none contained any disclaimer of warranties. However, each package containing the program bore a "box top" licence dealing with these matters.

The relevant provision of the *Uniform Commercial Code* provides that:

> *"A definite and seasonable expression of acceptance or a written confirmation which is sent within a reasonable time operates as an acceptance even though it states terms additional to or different from those offered or agreed upon, unless acceptance is expressly made conditional on assent to the additional and different terms." (UCC2-207(1)(1991)).*

This provision is known as the "Battle of the Forms" rule and effectively provides that contracts can be concluded even though the expression of acceptance or written confirmation states terms "additional to or different from" those offered or agreed upon. The exception applies where acceptance is expressly made conditional on assent to the additional or different terms. In the Step-Saver case the Court held that the statement on the packaging for the Multilink Advanced software to the effect that "opening this product indicates your acceptance of these terms" was not sufficient to constitute an express conditioning of assent to the additional or different terms. The Court found that the contract was concluded prior to Step-Saver receiving the software and thus the licence provisions were ineffective. Thus the contract was one under which the disclaimers and limitations on liability contained in the shrinkwrap licence were ineffective and a number of implied warranties applied.

Another case which resulted in a similar decision is *Arizona Retail Systems Inc v The Software Link Inc (831F. Supp. 759 (D.Ariz. 1993))*. The facts in the Arizona case were close to those in Step Saver with one important difference. In the Arizona case, an evaluation copy of the software was provided to Arizona prior to any agreement being entered into. Once Arizona had approved the software, it then proceeded to purchase a number of additional quantities by telephone order from the copyright owner over a period of time. In none of these subsequent telephone conversations nor on any documentation relating to these orders were the terms of the shrinkwrap licence referred to. However, each package containing the software was enclosed in a shrinkwrap package bearing the terms and conditions of the shrinkwrap licence.

The Court held that the shrinkwrap licence provisions were effective only in relation to the first purchase of the software following evaluation by Arizona and that the provisions were ineffective in relation to the subsequent purchases. The Court followed the reasoning in Step-Saver in saying that:

- the relevant contract came into existence prior to the terms of the software licence being brought to the attention of the purchaser; and
- the use of the software by the purchaser was not a sufficient acceptance of the new or varied terms which accompanied the software on delivery. Nor would the Court accept that the repeat transactions had the effect of imbuing Arizona with the knowledge that those terms would apply in subsequent transactions. The reasoning was presumably that those terms could be altered at any time by the vendor of the software.

In both these cases the copyright owner was the supplier of the software to the user.

Subsequently, the seventh circuit of the Court of Appeals reached a contrary decision in *ProcD Inc v Matthew Zeidenberg and Anor (86F.3d 1447 (7th Cir.1996))*. Although, not seemingly relevant to the decision, this was a case where the copyright owner was not the supplier of the software to the user.

In this case ProcD Inc compiled a software database from over 3,000 telephone directories at a cost of US$10million. In the United States it has been held that there is insufficient originality in compilations of data in a directory to give rise to copyright. Accordingly, ProcD sought to protect its data through the terms of its shrinkwrap licence. It also charged a higher price for the software when used for commercial as opposed to private use. Software for private use was packaged and sold through retailers.

The outside of the packaging contained a statement that the software was subject to the terms and conditions of licence contained in the package. Among other things, the licence limited use to non-commercial purposes. Zeidenberg purchased the software from a retailer and allowed public access to the software via the Internet for a fee in the belief that the licence was unenforceable. Zeindenberg had legal advice to this effect.

The Court in the ProcD case distinguished the Step-Saver case on the basis that ProcD was not a Battle of the Forms case. There was only one form - the licence contained inside the package for the software. This allowed the Court to concentrate on a different provision of the *Uniform Commercial Code* - one which allowed the parties to make an agreement in any manner they chose, including by conduct. Section 2-606(1)(b) of the Code states that "a buyer accepts goods when, after an opportunity to inspect, he fails to make an effective rejection". The Court held that the method of acceptance of the vendor's offer was specified by ProcD. This was the reading of the licence which appeared on the screen and which required acceptance before use of the software could be continued. Zeidenberg read the licence terms, clicked on the "accept" button and thus agreed to the terms. Had Zeidenberg wished to, he could have returned the software. Zeidenberg unsuccessfully argued that, as the licence terms were inside the package and he could not read them until he purchased the software, they could not be part of any contract with ProcD.

In order to clarify the position of shrinkwrap licences, changes have been proposed to the *Uniform Commercial Code* by the American Law Institute.

(b) United Kingdom

A comprehensive analysis of shrinkwrap licences was made in Scotland in *Beta Computers (Europe) Limited v Adobe Systems (Europe) Limited (351PR147)*. That case concerned a fairly typical transaction where the software owner supplied packaged software to a second party who in turn supplied the software to a user. The Scottish Court of Session, in order to give business efficacy to this particular type of transaction, held that the immediate supplier and the user should not be regarded as being ad idem "... until there are produced and accepted by the parties to the contract those conditions stipulated by the owner of the software for its use." (page 158).

In the Beta Computers case, the software was produced by Informix Software Inc and it was supplied to Beta Computers and ultimately ordered by Adobe Systems. The conditions under which the software could be used could be read through the shrinkwrapping and it was stated on the package that "opening the Informix SI software package indicates your acceptance of these terms and conditions". In an action by Beta Computers for payment of the price, Adobe Systems successfully argued that its acceptance of the licence conditions was an implied condition to be met before the purchase agreement with Beta Computers became enforceable.

In this case the parties agreed that what Adobe required was access to the intellectual property of Informix in a medium which it could use and from which it could copy program material electronically onto its hardware system so as to be able to employ it for business purposes. There was discussion as to whether there were two contracts (one for the sale of the disk and the other for the grant of a licence to use the software incorporated on the disk) or only one contract. The Court held that there was only one contract and that a contract for the supply of proprietary software was a contract *sui generis*. The Court noted that it is an essential feature of an effective transaction for the supply of software that the supplier undertakes to make available to the user both the medium on which the software is supplied and a right of access and use. However, if there is only one contract, the issue arises as to how the copyright owner's terms and conditions of licence become part of the contract for the supply of the software.

On this issue, the Court held that it was not possible to hold that there was a new contract between the copyright owner and the end user which came into existence at the point of delivery with acceptance occurring on the unwrapping of the software products. The fundamental difficulty with this rationale would be the absence of the supplier from the supposed contract so that rejection of the software licence terms, for instance, would leave the supply contract untouched. This led the Court to the conclusion that the contract for the supply of the software would not be legally enforceable until the user could be said to have accepted the copyright owner's terms and conditions of licence stipulated in respect of the software. Accordingly, where the software was supplied pursuant to a telephone order (as in this case), the prospective purchaser could reject the software unless it had accepted the copyright owner's terms and conditions of licence. In doing so the Court, as noted above, recognised shrinkwrap licences as a separate species of contract. Further, the Court found that there was no difficulty under Scots law with the structure proposed and relied on a concept in Scottish law which is not present in English or Australian law - a *jus quaesitum tertio*. This being the case, reasoning as employed by the Court is not available in these jurisdictions and therefore the same result on the same reasoning would be unlikely. In English and Australian law the doctrine of privity of contract and the need for consideration to flow from the promisee to the promisor present analytical problems which are difficult to resolve.

5. ALTERNATIVE ANALYSES

The cases mentioned above highlight the problems surrounding shrinkwrap licences but do not provide convincing solutions. Where the copyright owner is the ultimate supplier of the software the problem is straightforward and the analysis is similar to that used in "ticket" cases. However, the problems associated with transactions involving third party resellers cannot be simply solved under Australian law.

Alternative ways of analysing this particular aspect of the problem include the doctrine of unilateral contracts, the approach which the courts have taken to bills of lading and the doctrine of implied licences.

(a) Unilateral Contracts

A unilateral contract is one where the offer takes the form of a promise given in return for the performance of an act rather than in return for another promise. The reward cases are the most striking examples. In such cases, the performance of the act designated will constitute both the acceptance of an offer and the furnishing of consideration by the promisee. However, in such contracts, there is no obligation on the "offeree" to engage in the designated conduct.

If one could establish that a shrinkwrap licence was in effect an offer by the copyright owner to provide the requisite licence to use the software which was open for acceptance by a person by engaging in specified conduct, such as loading and using particular software, a contract would be brought into existence. The terms and conditions of the contract would be those set out in the shrinkwrap licence.

The difficulty with this analysis is that it results in two contracts being brought into effect in respect of one transaction. There will be a contract for the sale of the medium on which the software exists and a separate licence giving access to that software. If the purchaser rejects the licence terms, the contract of sale of the medium remains untouched.

In many shrinkwrap licences a right of rejection and return is given. To be consistent, it would be necessary for any right of return to be to the copyright owner. The copyright owner might not be prepared to refund the price paid for the medium on which the software exists; particularly as the copyright owner would have no control over the price charged for that software.

Thus, the concept of unilateral contract is not a perfect solution. However it does appear to fit the nature of the transaction and does result in a contract being established between the purchaser of particular software and the copyright owner.

(b) Bills of Lading

Situations in which third parties have been held to be able to take advantage of the contractual terms of a contract between 2 other parties are those involving bills of lading.

In the case of the "Eurymedon" *(New Zealand Shipping Co. Limited v Satterthwaite & Co. Limited [1975] AC 154 PC)* a drilling machine was being shipped from the United Kingdom to New Zealand and was damaged during the course of unloading by the stevedores who were responsible for unloading the ship. The issue was whether the stevedores could take advantage of the exemption and limitation clauses contained in the bill of lading. The bill of lading purported to extend the protection of the exculpatory clauses to servants and agents of the carrier into which categories the stevedores would fall. The Privy Council held that the stevedores could take advantage of the relevant clauses notwithstanding that the stevedores were not a party to any agreement with the consignees who were suing for the damage negligently caused.

That case was followed in Australia in "The New York Star" *Port Jackson Stevedoring Pty Ltd v Salmond & Spraggon (Aust) Pty Ltd (144 CLR 300)*. Again the matter involved the alleged negligence of stevedores, this time in handing a consignment of razor blades to persons who were not entitled to them.

In the Eurymedon the Privy Council adopted the reasoning of Lord Reid in *Scruttons Limited v Silicones Limited ((1962) AC 446)*. The reasoning was that a stevedore discharging cargo from a ship was entitled to the benefit of clauses in the bill of lading if:

- the bill of lading by its terms made it clear that the carrier intended to protect the stevedore;
- the carrier by the bill contracted for the stevedore's protection as well as for his own;
- the authority of the carrier to act for the stevedore in this respect whether antecedently or by ratification was made out; and
- there was consideration moving from the stevedore.

In the Port Jackson case it was conceded by the parties that the bill of lading made it clear that the carrier intended by the terms of the bill of lading to protect the stevedore. Moreover it was also conceded that the carrier through the bill of lading contracted for the stevedore's protection as well as its own. These points were apparent from the wording of the bill of lading.

On the third issue the High Court held that the carrier acted with the authority of the stevedore as its agent to make the arrangement with the consignor for the protection of the stevedore. When the bill of lading was accepted by the consignee, the consignee became a party to the arrangement with the consignor. Barwick CJ said that:

"I can see no validity in a suggestion that the bill of lading could not at the one time contain a contract of carriage between the consignor and carrier and an arrangement between the consignor and stevedore, made through the agency of the carrier, to regulate the relationship of consignor and stevedore, when the stevedoring work was undertaken." (at page 243).

Barwick CJ rationalised the argument by saying that the act of stevedoring the cargo gave to it the benefit of the exculpatory clauses in the bill of lading. The High Court accepted that the carrier's promise to exclude the stevedore's liability became binding upon the stevedore discharging the goods notwithstanding that the stevedore was bound to do that by virtue of an independent contract with the carrier. The High Court also held that as the stevedore acted in reliance of the promise of the carrier, consideration moved from the stevedore to the carrier. The majority decision was affirmed by the Privy Council.

The analogy with shrinkwrap licences breaks down however, unless the seller makes it clear in the terms of sale of the medium that it is also contracting for the copyright owner as well as itself. The seller's terms of sale would rarely meet this requirement. Moreover, the *"bills of lading"* cases allow the third party to take advantage of specific terms in the principal contract as opposed to the creation of a completely separate contract between the copyright owner and the user on terms not included in the principal contract.

(c) Implied Licences

Where a person conducts himself or herself in a particular way, the law will imply a licence to protect a third party from challenge from that person. In some cases the licence will be implied into a contract to give business efficacy and in others into all contracts of a particular kind (*see Acohs Pty Ltd v R.A. Bashford Consulting Pty Ltd & Others 37 IPR 542*). In yet other cases the law will imply a licence outside a contractual relationship. The rationale for this type of licence is presumably based on estoppel or principles similar to those underlying estoppel. In the case of software, the release of the software onto the market carries with it a representation that the software may be used for particular purposes. A purchaser relies on that representation when using the software. These facts are known to the copyright owner. Thus, it could be argued that an estoppel is raised against the copyright owner preventing the copyright owner from arguing that no licence has been granted. If terms modifying the "representation" are adequately brought to the attention of the user, the area within which the estoppel operates can be regulated.

Thus, in order to limit the "representation" forming the basis of the estoppel it would be necessary for the conditions of the shrinkwrap licence to be brought to the attention of the user at the time the "representation" was made. This would require a clear statement regarding the terms to appear on the packaging.

6. OTHER PROBLEMS WITH SHRINKWRAP LICENCES

The application of traditional contractual principles is not the only problem which shrinkwrap licences have. There are at least two other concerns which need to be dealt with. The first is the question of authority and the second is the possibility that the terms of a shrinkwrap licence may be regarded as being unconscionable.

On the first issue, if a shrinkwrap licence is not struck down because the terms have been brought to the attention of and agreed to by the purchaser, an issue will still arise as to whether the person who effectively "accepts" the terms of the shrinkwrap licence has authority to do so.

It has long been established that acceptance of an offer for the purposes of the formation of a contract must be by a person with the relevant authority to do so. In many cases the person who will be given software to load onto a computer system will not be a person who has the requisite authority of the company to agree the terms and conditions under which software may be used.

The second issue of unconscionability is linked to the fact that shrinkwrap licences are contracts of adhesion.

A contract of adhesion generally comprises standard terms and conditions in respect of which there is no subjective agreement by one party although the terms and conditions form the contract between them. They are essentially "take it or leave it" conditions. In general, the courts accept that contracts of adhesion serve a useful purpose in commerce (*see John Dorahy's Fitness Centre Pty Ltd v Buchanan - Supreme Court of New South Wales Court of Appeal - 18 December, 1996*). However, the fact that a contract is a contract of adhesion affects the approach the courts take to interpretation of the terms of the contract.

The intention of the parties to a written contract is determined by a court from the words used with the court standing in the same factual matrix as the parties. Thus, in deciding what the parties mutual intentions were, the courts will take into account that one party may not have had any opportunity to negotiate the terms of the written agreement. Thus, in relation to exemption clauses, although the clauses are to be construed according to their ordinary and natural meaning (*see Darlington Futures Limited v Delco Australia Pty Ltd (1986) 161CLR 500*) the court is entitled to consider whether if the ordinary and natural meaning of the clause had been brought to each of the party's attention, they would have each been prepared to enter into the contract on that basis. However, contracts of adhesion are more susceptible to a challenge of unconscionability than separately negotiated contracts.

In particular, software packages which are for personal, domestic or household use or consumption and are not purchased for resupply already attract section 51AB of the Trade Practice Act 1974. This section prohibits a corporation from engaging in unconscionable conduct.

Since 1 July 1998, section 51AC has extended the unconscionability prohibition to other transactions involving software supplied or acquired for the purpose of trade or commerce, and at a price not in excess of $1,000,000 or such higher amount as is prescribed.

Thus, even if shrinkwrap licences survive the difficulties presented by the contractual principles to be applied, they must also survive challenges from other quarters. In so far as unconscionability is concerned, the conduct of the copyright owner and the terms of the licence must be fair. Sections 51AB and 51AC also set out the matters to which a court may have regard in assessing whether or not particular contracts are unconscionable. These matters include:

- the relative strengths of the bargaining positions of the parties;
- whether the acquirer was required to comply with conditions that were not reasonably necessary for the protection of the legitimate interests of the other party;
- whether the acquirer was able to understand the documents relating to acquisition;
- the amount for which, and the circumstances under which, the acquirer could have acquired identical or equivalent goods or services from a person other than the supplier; and
- the extent to which the supplier was willing to negotiate the terms.

7. PRACTICAL CONSIDERATIONS

Where there is a direct relationship between the copyright owner and the user, unless the terms and conditions of a shrinkwrap, clickwrap or similar licence are brought to the attention of the user prior to the contract for the purchase of software coming into effect, there will be doubt over their enforceability. Where there is an interposed third party, there will be considerable difficulty in enforcing the licence on a contractual basis even if proper notice is given. Software producers will therefore need to rely on rights in copyright to control the use of their programs. The right of the user to use the program will be implied and the terms of that licence will be influenced by the terms contained in a shrinkwrap licence brought to the attention of the user under appropriate conditions. Whether such a licence can include conditions unrelated to the exclusive rights granted as part of the copyright, such as disclaimers of liability, has not been the subject of judicial decision and is therefore not clear. The following suggestions are made in an attempt to reduce the uncertainty:

- In the case of sales through third parties:
  - All communications relevant to the software between the software developer and the software vendor on the one hand and between the software vendor and the user on the other should refer to the terms and conditions of any shrinkwrap licence. Even advertising should indicate that the use of the software is subject to the terms and conditions set out in a shrinkwrap licence. If possible, the sales invoices of the immediate supplier should refer to the software as being sold subject to the licence terms and conditions.
  - Where possible, the immediate supplier should be nominated as the agent of the owner of the copyright in the software solely for the purposes of concluding an agreement between the owner and the user.

- The terms and conditions of any shrinkwrap licence should be conspicuously displayed on the outside of the packaging. The statement on the outside of the packaging must make it clear that acceptance of the terms and conditions of the shrinkwrap licence is a condition to the transaction proceeding. If this is not practical, a statement on the outside of the packaging should refer to the fact that the terms and conditions of the shrinkwrap licence are enclosed with the software and that certain steps will be taken to constitute acceptance of those terms and conditions. In addition, the initial screens displayed when the software is loaded should set out the terms and conditions of licence and require the user to indicate acceptance by hitting, for example, an "accept" button.
- The language of any shrinkwrap licence should be simple and the terms should be fair and reasonable.
- Where possible, the acceptance of a shrinkwrap licence should be directed to a person with authority.
- Where one user is likely to purchase a number of copies of software, it would be desirable to use a master licence setting out the terms of the shrinkwrap licence.
- Shrinkwrap licences should be used for lower priced software which is used for non-critical applications. High priced software which is likely to be the subject of a separate negotiated agreement should have all of the terms and conditions set out in the relevant agreement.

In conclusion, there are no easy answers where there is an interposed third party. Time will tell whether the law can adapt to meet the needs of copyright owners or whether the legislature will be prepared to step in to fill any void which might open up. In the meantime lawyers can only advise their clients to take as many precautions as possible to maximise the possibility of legal protection.

New Plan for Copyright On-line

Christopher Wood, Minter Ellison

In a recent press release the Attorney-General, Daryl Williams, has announced the Government's plan to amend the *Copyright Act 1968* to address some of the problems with protecting material that is published on-line. The Government proposes to present an amendment bill in early 1999. The Attorney-General has outlined four key elements that will be addressed in the bill.

The first element is a new right of communication to the public. This dispenses with the Government's earlier proposal of having two separate rights, a right of transmission and a right of making available to the public on-line. The proposed new right of communication will be technology neutral, and thereby get around the limited diffusion right. This springs from various concerns expressed by members of the legal community, most notably Kirby J in *APRA v Telstra.*[1] His Honour in that case noted that Internet service providers may be classed as a diffusion service saying that *'Parliament may need to consider these questions'*. The proposed amendments to the *Copyright Act* would remove this confusion and confirm that ISPs were not a diffusion service.

The second key element of the proposal is a change to the regime of exceptions. Under the current *Copyright Act*, it is legal to copy a reasonable portion of a work for research or study (known as fair dealing). The example of a fair dealing provided in the Act is a person copying not more than 10% of the number of pages, or any one chapter for research or study. However, the Act does not set out an example for material that is not divided into pages, such as electronic material. The Attorney-General proposes that this exception be extended to electronic material that is also published in hard copy, presumably by classing a reasonable portion as including an amount of the electronic version that is equivalent to 10% of the hard copy. The Attorney-General stresses in the press release that *'the 10% test will only apply where there is a hard copy published edition of the electronic material'*.

It is difficult to see the rationale behind retaining the reference to printed pages when simply providing for 10% of the material (be it electronic or printed) would clearly be appropriate. The proposed change has the potential to leave users without any fair dealing defence for the use of a small amount of material that is not otherwise available in hard copy. This would be an absurd result given that the Act, in setting up the rule about 10% of the pages, does so *'without limiting the meaning of the expression "reasonable portion"'*.[2]

There is no doubt that we will see an increasing number of publications that are only available on-line, and the Government should provide for a fair dealing defence for copyright material that is only available in electronic format. The Government does propose to provide that educational institutions that provide access to copyright material on-line