

A LEGAL-COMPARISON OF THE INDIA SOFTWARE LAW AND THE SOFTWARE LAW OF GERMANY

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India has emerged as one of the leading destinations for offshore outsourcing in software industry and has attracted the attention of software industries of several countries including that of Germany. In order to sustain this outsourcing relationship, the legal frameworks of these countries play a very important role. In this article, the author conducts a comparative analysis of Indian and German laws that impact the software industry, mainly dealing with three fields: First, Copyright Law impacting the protection of intellectual rights over software; second, Contract Law specifically dealing with software contracts and nature of such transactions and, finally, the remedies available in both the countries under their civil, criminal and administrative law to ensure protection of software.

I. IT-ITES MARKET IN INDIA AND GERMANY

The Information Technology- / Information Technology Enabled Service industry (IT-ITES) and the business process outsourcing (BPO) sector are major parts of the economy of India. The growth in the service sector in India has been led by the IT-ITES/BPO sector, contributing substantially to an increase in GDP, employment, and exports. The sector has increased its contribution to India's GDP from 1.2% in FY1998 to 7.5% in FY2012. According to NASSCOM, the IT and BPO sector in India aggregated revenues of US\$100 billion in FY 2012, where export and domestic revenues stood at US\$69.1 billion and US\$31.7 billion respectively, growing by over 9%.¹ Export dominates the IT-ITES /BPO services, and constitutes about 77% of the total industry revenue.

In 2013, the German chamber of IT business (called 'Bitkom') estimated the German market for information-technology and telecommunication (without the BPO – business) at a value of €153 billion (\approx US\$203 billion or \approx Rs.13.739 billion).² The Top Five Indian IT service providers³ also find the German information technology and telecommunication market to be of great importance as well. The Germans like the know-how, quality and the costing of the Indian software engineers,

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¹ Indian IT-BPO Industry NASSCOM. Retrieved 15 December 2012.

² Report of Bitkom 2013, Bitkom is the chamber of German ITC industries.

³ The Top Five Indian IT services providers are Tata Consultancy Services, Infosys, Cognizant, Wipro and HCL Technologies.

and thus all of the Top Five Indian IT service providers have branches in Germany. The Germans call the IT business with India IT service providers: "Offshore or Offshoring."

Cost is definitely one of the main reasons for offshore outsourcing, but it is not the only reason. When a company decides to outsource developed software, it needs to factor in the initial investment needed in terms of infrastructure, recruitment, training etc. while the cost advantage is seen much later. Along with value addition, there are savings in offshore outsourcing, but outsourcers will realize the quality and value addition only after the outsourcing begins. Offshore outsourcing also leads to immense time saving, while maintaining quality and higher productivity. As reported by NASSCOM,⁴ 'India's great attraction as an outsourcing destination is its unbeatable value proposition and the PQR (Productivity, Quality and Rate) factor. Key drivers of global offshore outsourcing, along with India's strengths, are continuing to stoke the Indian ITES-BPO growth engine. India is at an advantageous position due to its active government support and stable political climate. According to a leading advocate of cyber laws, 'India is the 12th nation in the world that has cyber legislation apart from countries like the US, Singapore, France, Malaysia and Japan.'

The increase in offshore outsourcing is driven by a combination of the following factors:

Firstly, its visibility has encouraged more conservative companies to experiment with offshore outsourcing for competitive reasons.

Secondly, broadening of the IT services offered by offshore companies like Wipro and Infosys.

Thirdly, the establishment of captive offshore centres by user companies for their business processes.

And *lastly*, Onshore IT and service vendors setting up shops in countries like India and China.

A great goal for the IT-ITES industry of India is the development of the new core-banking-system of Germany's largest bank: Deutsche Bank. Tata Consultancy Services won this project and

⁴ Indian IT-BPO Industry NASSCOM. Retrieved 15 December 2012.

designed new IT processes based on the SAP software. Approximately 1200 employees are expected to have worked on the mammoth project (called "Magellan").⁵ In the end, the bank wants to save 250 million euros (\approx US\$331 million or \approx Rs. 21229 million) per year. Such projects of Deutsche Bank are great indicators for business-and IT trends in Germany.

II. BASICS OF INDIA'S AND GERMANY'S SOFTWARE LAW

The Indian software law is based on the Indian Copyright Act. The Copyright Act, 1957(Act No. 14 of 1957) governs the laws & applicable rules related to the subject of copyrights in India. "Literary work" includes computer programmes (software), tables and compilations including computer databases [Sec. 2 (0)].⁶ Copyright Law in the country was governed by the Copyright Act of 1914, which was essentially an extension of the British Copyright Act, 1911 to India, and later borrowed extensively from the new Copyright Act of the United Kingdom of 1956. All copyright related laws are governed by the Copyright Act, 1957.⁷

The Copyright Act today is compliant with most international conventions and treaties in the field of copyrights. India is a member of the Berne Convention of 1886 (as modified at Paris in 1971), the Universal Copyright Convention of 1951 and the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement of 1995. Though India is not a member of the Rome Convention of 1961, WIPO Copyrights Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT), the Copyright Act is in compliance with it.

The German Copyright Law (which includes the Software Law) evolved to a certain extent⁸) from the European Union (EU). Most European Union directives⁸ were transferred into the German

⁵ Computerwoche "Das Milliarden-SAP-Projekt der Deutschen Bank" 14.11.2012.

⁶ *Vermey* in Ullrich/Lejeune, International software contract, 2. Edition 2006, No. 598.

⁷ INDIAN COPYRIGHT ACT, 1957". Govt of India. Archived from the original on July 21, 2011. Retrieved 30 September 2012.

⁸ A directive is a legislative Act of the European Union, which requires member states to achieve a particular result without dictating the means of achieving that result. It can be distinguished from regulations which are self-executing and do not require any implementing measures. Directives normally leave member states with a certain amount of leeway as to the exact rules to be adopted. Directives can be adopted by

Law, including the very important EU Software directive. Nearly 20 years ago the EU Commission decided to unify, the legal protection for software in the EU Member States. The Directive on the legal protection of computer programs (91/250/EEC) stipulates that, among other things, computer programs are protected by copyright as literary works. The Council Directive 91/250/EEC has formally been replaced by the Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs on May 25, 2009,⁹ which consolidates the various minor amendments the original directive has received over the years."¹⁰ The Copyright Law of Germany is a typical kind of a Copyright law of a member of the European Union. The differences between the copyright laws of the European Union Member States are rather small. If one understands the German Copyright Law there is no big challenge to understand the Copyright Law of other Members of the European Union. The Germans call his Copyright Law "Urheberrechtsgesetzgesetz" (the short form of which is "UrbG").

III. PROTECTION OF SOFTWARE

The Indian Copyright Law 1957 defined computer programs (software) in Sec. 2 (ffc) as follow: "Computer program means a set of instructions expressed in works, codes schemes or in any other form, including machine readable medium, capable of causing a computer to perform a particular task or achieve a particular result." Computer programs (Software) include many items like the programmed manuals and papers, computer printouts, punch cards containing information in a particular notation, magnetic tapes and discs required for operation of computers. Computer databases are protectable under the copyright law in India as literary work¹¹ even when they only

means of a variety of legislative procedures depending on their subject matter. Nanda, Ved P. (1996). Folsom, Ralph Haughwout; Lake, Ralph B. eds. *European Union law after Maastricht: a practical guide for lawyers outside the common market*. The Hague: Kluwer. p. 5. "The Union has two primary types of legislative acts, directives and regulations.

⁹ Articles 10 and 11 of the Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs, L 111/16 EN, Official Journal of the European Union, 5.5.2009.

¹⁰ Jeremy Phillips, Tuesday tiddleywinks, IPKat, 5 May 2009. Consulted on 5 May 2009.

¹¹ *Sham Lal Paharia v. Gaya Prasad*, AIR 1971 All. 182.

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involve "sweat-of-the-brow" and may not involve any creativity or selections skill.¹² The Indian courts in numerous cases have attributed the same meaning to "originality" as under British law.¹³ "Originality" for the purpose of copyright law relates to the expression of thought and is not concerned with the originality of ideas; and in the case of literary work, with the expression of thought in print or writing (in a concrete form). The degree of originality required for copyright protection is minimal; the emphasis is more on the labour, skill, judgement and capital expended in producing the work. To acquire a copyright, no formalities are required. It can be registered with the copyright office. But a copyright may exist in a work even if it is not registered and receives protection from the moment the work is being created. Registration will, however, be valuable in the enforcement of copyright.¹⁴

If software or an intellectual property wants protection by the German Copyright Act the threshold for the intellectual input required is high. In Germany and other States of European Union an IP must be higher than a special level of creativity (in German "Schöpfungshöhe"), it must be an intellectual work (German "werk"). The requirements for reaching the special creativity level as required under Sec. 2 UrhG:¹⁵

There must be a personal creation of the author.

It must have an intellectual content.

It must have a tangible form.

There must be individuality of the author expressed therein.

This is not commonly important for a protection of Software, but it is very important for the products around the software, such as documentation, business blue print, concepts and so on. Generally these things are protected under Sec. 2 UrhG. For the protection of software the intellectual activity has to be very high. The special level of creativity for software is based on the

¹² *Govinan v. Gopalakrishina*, AIR 1955 Mad. 391; *Burlington Home Shopping v. Rajnish Chibber*, 61 (1996) Delhi Law Times 6.

¹³ See e.g., *R.G. Anand v. Delux Films*, AIR 1978 SC 1613.

¹⁴ *Verny* in Ullrich/Lejeune, *International software contract*, 2. Edition 2006, No. 601.

¹⁵ *Schricker*, *Urheberrecht*, 2. Edition 1999, P. 46–132.

"Theory of small coin" (German: "Lehre der kleinen Münze"). The Theory of small coin originates from the Latin Law and means all things for which one can pay with a small coin. In Germany and other States of the European Union, software is protected by the Copyright Act, if the software is not a "bagatelle" programming. A definition of bagatelle programming the term cannot be clearly defined. The courts decide case by case what a bagatelle programming is or what it is not. But it is not really a question in the legal practice in Germany or in the European Union.

IV. CONTRACT LAW

There is no specific law in India governing computer software like China. A computer software contract (called "*Software license agreement*") is governed by the common law principles as embodied in the Indian Contract Act 1872. If the software is classified as "*good*", the Sale of Goods Act 1930 will also have relevance since it deals only with moveable goods and not with the tangible aspects of the goods.¹⁶ The Sec. 2 (7) of the Sale of Goods Act defines "*goods*" as "*every kind of movable property other than actionable claims and money, and includes stocks and shares, growing crops, grass ...*" This definition is very wide and includes all types of movable properties, whether those properties are tangible or intangible. It would become a good provided it has the characteristics thereof having regard to (a) its utility; (b) capable of being bought and sold; and (c) capable of being transmitted, transferred, delivered, stored and possessed. If a software whether customized or non-customized satisfies these characteristics, the same would be goods.¹⁷ In the judgement of *Commissioner of Sales Tax v. Pradesb Electricity Board*, electricity was considered as "*goods*" irrespective of its nature, or whether it was tangible or non-tangible, as it is capable of abstraction, consumption and use.¹⁸ In Case of TCS the Supreme Court of India considered computer software as "*goods*" and stated that "even intellectual property, once it is put on to a media (e.g. Disk, CD or DVD)" would be treated as such¹⁹

The law of India provides no specific form for software-contracts. But for valid software-contract it's important there is an offer, an acceptance of that offer or proposal and consideration for that

¹⁶ See *TCS v. State of Andhra Pradesh* 271 ITR 401 (2004).

¹⁷ *TCS case, op. cit.* 82.

¹⁸ See: *Commissioner of Sales Tax v. Pradesb Electricity Board* (1969) 1 SCC 200

¹⁹ *Verma in Ullrich/Lejeune, Der Internationale Softwarevertrag*, 2. Edition 2006, p. 778.

offer and acceptance. A software-contract based on Indian Law must be covered by the licensing of computer software. The licensing gives the licensee a restricted right to use the software. The term of the license specifies the duties of the licensee of varying degrees. Thus it will be governed by the law of contract. In reference to Sec. 30 of the Copyright Act (India), "*the owner of the copyright in any existing work or the prospective owner of the copyright in any future work may grant any interest in the right by license in writing signed by him or by his duly authorized agent.*" An owner of the copyright may assign to anyone the copyright either wholly or partially and either generally or subject to limitations and either for the whole term of the copyright or and thereof. The assignment needs to be in writing to be valid. E.g. the licensing gives the licensee an exclusive or non-exclusive right to use the software.

It is not clear in the German jurisdiction whether software is classed as "goods".²⁰ The German Subprime court (called Bundesgerichtshof, short form BGH) means software not a thing ("*goods*"), but is to be treated as thing/goods.²¹ This is a very important issue, if software is a goods or to be treated as a things/goods the German sales law (sec. 433 ff. BGB) or other sections of the German civil code are applicable. The form of the right to use the software is based in the German Copyright Act (UrhG). The author may grant a right to another to use the work in a particular manner or in any manner (exploitation right).²² An exploitation right may be granted as a non-exclusive right or as an exclusive right, and may be limited in respect of place, time or content.²³

In a software-contract (license) owner of copyright gives the exclusive or non-exclusive right to use the software.²⁴ The non-exclusive right of use entitles the right holder to use the work only as allowed by contractual terms and without exclusion of possible usage by a third party, Sec. 31 S.2 UrhG. E. g. the author can grant a non-exclusive right of using a stage play to not just one but several theatre ensembles. The exclusive right of use entitles the right holder to use the work exclusively as allowed by contractual terms meaning no other person can be given the (exclusive) right of using a stage play to only one theatre ensemble. The right holder, however, can be given the

²⁰ Goods in the sense of things, sec. 90 BGB (German civil code)

²¹ BGH, 04.11.1987 - III ZR 314/86 = BGHZ 102, 135; NJW 1988, 406; NJW-RR 1988, 312 (Ls.).

²² Sec. 31 I S. 1 UrhG (German Copyright Act).

²³ Sec. 31 I S.2 UrhG (German Copyright Act).

²⁴ Sec. 31 I S. 2 UrhG (German Copyright Act).

right of independently granting non-exclusive rights of that work if the author agrees, as per Sec. 31 III 1 UrhG. German law does not discriminate between the grant of non-exclusive or exclusive use rights to the software, i.e. the Germans look at the content and purpose of the transferred IPRs, the Germans call it purpose of transmitting doctrine (in German “*Zweckübertragungslehre*”). The purpose of transmitting doctrine holds that copyright confers the rights in question only to the extent that it is necessarily required according to the contract purpose. This follows from Sec. 31 UrhG. The relevant paragraph reads: *"If upon the granting of usage rights not expressly designated uses individually so determined by the two partners of underlying purpose of the contract, on which types of use which it extends. ² The same applies to the question whether a right is granted to use, whether it be a simple or exclusive right of use is how far right of use and legal prohibition and restrictions subject to which the right of use."* Sec. 31 para. 5 UrhG.

The author of a work may freely decide about its use. To allow usage rights, what type and extent of the use, transfers to the appropriate legal or natural person have to be determined in a (oral or written) contract. This requires an agreement between the parties, which however is not bound to any form. If it cannot be discerned from the terms of the contract what rights should be transferred for use, then only the use rights necessary for the fulfilment of the contract are transferred.(see Sec. 31 UrhG).

A contract which grants the rights for unknown or undecided types of use is required to be reduced into the written form (see Sec. 31a UrhG). Through this scheme, the contractor may be sure the work - in the context of usage to meet the contractually specified purpose - to use legitimate, even if no other arrangements are made in the contract. Therefore, the purpose for the transfer of teaching practice is of crucial importance.

V. PROTECTION OF SOFTWARE

A protection of software is very important in both countries. In India there are three types of remedies provided under the Act against any infringement of copyright: civil, criminal and administrative.

In reference to Sec. 55 of the Copyright Act (India) the civil remedies under the Act include injunction, damages or account of profits, delivery-up of infringement copies and damages for

conversion. In the case of innocent infringement, some of these remedies are no available.²⁵ A lawsuit or other civil proceeding relating to infringement of copyright is to be instituted in the concerned district court within the local limits of whose jurisdiction, at the time of the institution of the suit or other proceedings, the plaintiff resides or carries on business; see Sec. 62. This is in contrast to the normal rule under the Civil Procedure Code, which dictates that a suit must be filed in the court in whose limits an action has arisen or where the defendant resides. For the purposes of remedies, "owner of copyright" includes an exclusive licensee also.²⁶

For criminal remedies the Copyright Act (India) makes copyright infringement a cognizable offence and empowers the police to take action against pirates/infringers by seizing the infringing property and arresting the persons responsible. In reference to Sec. 63 of the Copyright Act (India) the offence of infringement is punishable with imprisonment, which shall not be less than six months but may be extended up to three years and a fine of Rs. 50,000 to Rs. 200,000. In reference to Sec. 63-A of the Copyright Act (India): "*Whoever having already been convicted of an offence under Sec. 63 is again convicted of any such offence shall be punishable for the second and for every subsequent offence, with imprisonment for a term which shall not be less than one year but which may extend to three years and with a fine which shall not be less than one lakh rupees but which may extend to two lakh rupees: Provided that [where the infringement has not been made for gain in the course of trade or business] the court may, for adequate and special reasons to be mentioned in the judgment impose a sentence of imprisonment for a term of less than one year or a fine of less than one lakh rupees: Provided further that for the purposes of this Sec., no cognizance shall be taken of any conviction made before the commencement of the Copyright (Amendment) Act, 1984.*"

For administrative remedies, the Registrar of Copyright, who or his authorized agent, on an application by owner of copyright or his duly authorized agent for banning the import of infringing copies into India may enter any ship, dock or premises where any such copies may be found and confiscate the infringing copies.

²⁵ Ss. 55(1) and 58 India Copyright Act.

²⁶ *Verma* in Ullrich/Lejeune, *Der Internationale Softwarevertrag*, 2. Edition 2006, p. 778.

In Germany the copyright of software is also protected by civil law and criminal law. An administrative remedy in Germany is not possible, but in civil law it is a way for an injunction like an administrative remedy.

In the case of copyright infringement, the plaintiff may sue for injunctive relief under Sec. 1004 BGB (German civil code).

Sec. 1004 Claim for removal and injunction: (1) if the ownership is interfered with by means other than removal or retention of possession, the owner may require the disturber to remove the interference. If further interferences are to be feared, the owner may seek a propitiatory injunction. (2) The claim is excluded if the owner is obliged to tolerate the interference. ..

Furthermore, the plaintiff can claim damages if he has a contract with the injured from Sec. 280 BGB (the central Sec. for a breach of contract in German Civil Law).

Sec. 280 Damages for breach of duty: (1) If the obligor breaches a duty arising from the obligation, the obligee may demand damages for the damage caused thereby. This does not apply if the obligor is not responsible for the breach of duty...

Otherwise in tort law from Sec. 823 BGB Liability in damages, the central Sec. of tort law in German: “(1) *A person who, intentionally or negligently, unlawfully injures the life, body, health, freedom, property or another right of another person is liable to make compensation to the other party for the damage arising from this.* (2) *The same duty is held by a person who commits a breach of a statute that is intended to protect another person. If, according to the contents of the statute, it may also be breached without fault, then liability to compensation only exists in the case of fault.*”

Criminal copyright infringer can receive up to three years in prison. The Copyright Act states in Sec. 106 UrhG: “(1) *Whoever duplicated in other than the manner allowed by law without the consent of the person entitled to a work or an adaptation or transformation of a work, distributed or publicly reproducing, is punished with imprisonment up to three years or a fine.* (2) *The attempt is punishable.*”

V. FINAL WORDS

The comparison of Indian Software Law and the German Software Law, shows that the software law in both countries is not so different. The protection of software is very important because

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manufacturing and marketing of software requires a lot of money. To protect the investment in software development, you always need a good legal system and enforcement of judgement.
