Oracle's licensing and auditing setbacks in the EU: How Europe and the U.S. have diverged in confronting Oracle's aggressive licensing practices

A team from Crowell & Moring discuss decisions between EU and U.S. judiciaries on Oracle's licensing practices and the contrast between those rulings.

For many years running, Oracle Corporation has been near the head of the pack when it comes to frequency and aggressiveness of software licensing audits. And, while much has been written about Oracle's well-honed "audit script" and the alienating effect its audits have on its long-term customers, there is little sign that Oracle intends to curb this deeply unpopular behavior. Quite the opposite, Oracle appears to be broadening the reach of its audit script beyond enterprise database licensing and, at minimum, into Java licensing as well.

However, despite Oracle's long-standing reputation for engaging in high-stakes and contentious litigation , Oracle has judiciously chosen not to test the legal veracity of its audit script in the American court system. In fact, the one case that was brought against Oracle challenging its auditing script – *Mars v. Oracle* – was quickly dismissed, with prejudice, prior to any substantive rulings. As such, there is no American decisional law that provides any clarity regarding an Oracle licensee's rights when defending against an audit. This lack of clear guidance is exasperated by Oracle's insistence on confidentiality provisions that silo its licensees, preventing them from sharing their common experiences.

However, Oracle has found itself litigating its audit script in European courts on at least two occasions. Suffice to say, Oracle has not fared well in these actions. Also in sharp contrast to Oracle's experience in United States, Oracle has been the target of European watchdog organizations attempting to draw attention to its aggressive litigating and licensing tactics.

The purpose of this article is to briefly explore European litigation and policy efforts to address Oracle's aggressive licensing tactics in order to provide guidance to the Oracle licensee in both jurisdictions.

Oracle's Typical "Audit Script"

Typical of most (if not all) software licensing agreements, Oracle's controlling master agreements allow Oracle to audit a licensee's software use. Per the typical agreement, Oracle has the contractual right to audit "upon 45 days written notice"; the licensee agrees "to cooperate with Oracle's audit and provide reasonable assistance and access to information"; and, in turn, Oracle agrees that the audit "shall not unreasonably interfere with" the licensee's "normal business operations."

Once Oracle invoked its audit right, most licensees undertake the audit process looking forward to the opportunity to perfect and tailor their license entitlements. However, this cooperative intent can soon dissipate as Oracle's audit requests become increasingly demanding and, ultimately, Oracle issues audit reports with staggering allegations of under licensing.

Oracle's audit script typically targets a licensee's use of virtualization software and unfolds as follows: most agreements mandate that all processors on which licensed software is "installed and/or running" must be licensed. Oracle defines installed as "available for use." Oracle urges that virtualization's capacity for live migration (the process of moving a running virtual machine or application between different physical machines) necessitates that Oracle software is installed (aka "available for use") on all processors across virtual environments.

Accordingly, Oracle's audit script is crafted to leave the licensee on the horns of a dilemma. Once Oracle discovers that a licensee runs virtualization software (e.g., VMware), Oracle may demand system and processor information for all virtual machines, whether they run Oracle software or not. And, as seen in the *Mars v. Oracle* matter (discussed below), if a licensee declines to accede to the demands for more information, Oracle may argue breach of the license agreement for failure to cooperate with the audit. On the other hand, if a licensee cooperates and provides information regarding its virtualized environments, Oracle will allege a precipitous licensing shortfall that could price into the tens of millions of dollars. Oracle then proceeds to offer steep "discounts" for additional licenses and past due fees and/or push replacement license agreements that promise relief from the pressures of the audit, albeit at the cost of further restricting the licensee going forward.

Oracle's position regarding virtualization is not unique to its American licensees. For example, Chad Sakac, the president of EMC-owned VCE, has publicly called out Oracle for targeting virtualization, stating that its position is "absolutely ridiculous, transparently self-serving and non-competitive."

While acknowledging the quality of Oracle products, and not otherwise questioning Oracle's pricing models, Mr. Sakac continued: "What I am debating is their absolutely ridiculous and transparently self-serving and non-competitive position on virtualisation. Customers – are you sick and tired of being held hostage? Stop. Fight back. We are here to help you."

Mars v. Oracle: Oracle's Brief (and Unresolved) Foray into U.S. Litigation of its Audit Script.

The *Mars v. Oracle* primarily stemmed from Oracle's demand that Mars provide information regarding its virtualized environment. Specifically, in the course of an audit, Oracle demanded that Mars provide information regarding all clusters and servers in Mars' virtual environments. When Mars refused, Oracle accused Mars of material breach of the license agreement by unreasonably delaying and refusing to permit Oracle's license review. In support of its demands for additional information, Oracle relied on the above-described argument regarding "installed and/or running" and VMware's capacity for "live migration."

Despite the fact that Mars had provided approximately 230,000 pages of documents, Oracle issued successive notices of termination of Mars's right to use any Oracle software. Days before the termination date, Mars filed suit seeking a judicial declaration that Mars was not in breach for refusing to provide additional information regarding its virtual environments. A preliminary injunction soon followed. Two weeks later, Mars and Oracle stipulated to a withdrawal of Mars' motion for preliminary injunction and a little over a month after filing, Mars requested dismissal of the case, with prejudice. No materials issues were addressed by the court prior to dismissal of the matter.

Oracle's (Unsuccessful) Forays into European Litigation of its Audit Script

In the last few years, Oracle's audit practices have been adjudicated in two cases in France.

Case Study No. 1: *Oracle v. AFPA*

In 2016, the Paris Court of Appeal held Oracle liable for damages in the amount of EUR 100,000 with regard to its unreasonable auditing behavior. The court expressly accused Oracle of having acted "in bad faith and in a disloyal manner."

After initiative successive audits against long-term licensee AFPA (the French national association for the education of adults), in 2010 Oracle issued an audit report alleging a precipitous licensing shortfall and a demand that AFPA pay 3.209.895 € to remedy the audit findings. After the parties failed to resolve the dispute, Oracle sued AFPA in 2012 before the Paris District Court for copyright infringement. In a 2014 judgment, the Court dismissed Oracle's claims and Oracle appealed. AFPA filed a counter claim for damages.

In a 2016 judgement the Paris Court of Appeal confirmed that there was no copyright infringement and granted damages to AFPA.

In support of its decision, the Court found the following:

- Oracle abused its audit right in order to put pressure on its licensee to acquire new licenses which were, in fact, not necessary. Indeed, in the course of the proceedings it became clear that Oracle had itself assessed AFPA's license need and indicated the requisite number of licenses.
- After the audit Oracle waited one year to provide its licensee with the audit report and only did so when they were not awarded a second tender.
- Oracle did not give clear information concerning the Oracle entities holding the IP rights.

Case Study No. 2: *Oracle v. Carrefour*

In 2014, the court of Nanterre ruled on the use of Oracle scripts during an audit. (Not to be confused with Oracle's "audit script," a "script" is simply a text file containing a set of instructions as to how the system accomplishes a specific audit test or procedure.)

Specifically, Oracle initiated suit against Carrefour after Carrefour refused to run certain scripts on its system in the course of an audit. The court ruled that it could not order the licensee to run the scripts for the following reasons: (i) there was no obligation in the contract between Oracle and the licensee to do so and (ii) running scripts is not recognized as a valid investigative measure under French procedural and intellectual property laws.

European Licensing Watchdog Organizations

In contrast to the United States, there are various European initiatives that address unfair licensing practices. For example, in the UK, the Campaign for Clear Licensing ("CCL") is an independent, not-for-profit organization campaigning for clear licensing,

manageable license programs and the rights of business software buyers. In November 2014, CCL took on Oracle, publishing a whitepaper entitled "Key Risks in Managing Oracle Licensing." This whitepaper purports to be the result of discussions and research with various actors, including CCL Members and the Oracle License Management Services ("LMS") team, and collects common concerns with Oracle licensing as well as feedback from Oracle LMS.

On a more global level, the International Telecommunications User Group (Intug), with members in various European countries, Australia and Indonesia, has adopted a "Proposal for Software Publisher's Code of Conduct". This Code of Conduct aims to define a set of acceptable practices for software publishers' behaviour and to cover contractual, technical, lifecycle and software audit conduct rules.

Its ultimate goal is for software publishers to provide legal certainty and unambiguous software licensing contracts with a clear definition of responsibilities for both software publishers and customers. This proposal has been endorsed by Beltug, the Belgian Association of Digital Technology Leaders and member of Intug.

Conclusion: Going forward

Contrasting Oracle's lack of success litigating its audit script in Europe against its discernable reticence to litigate the same in the United States, a few things can be surmised.

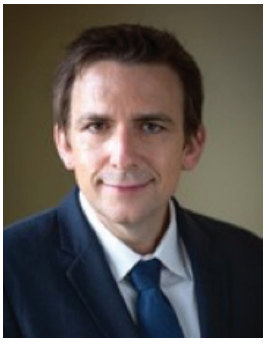
Oracle is Discouraged by its Forays into European Litigation. One cannot know whether Oracle consciously intended the European court system to be a testing ground for licensing litigation. However, the record does show that Oracle itself initiated both the unsuccessful Carrefour and AFPA matters, and, after losing both matters, Oracle has not initiated similar litigation in Europe.

Oracle Does Not Wish to Further Test Its Audit Script in the United States. The *Mars v. Oracle* matter was filed, by Mars, in 2015. Notably, this filing was nestled in-between the Carrefour and AFPA rulings (2014 and 2016 respectively). While the observer can't always assume that Oracle tightly synchronizes its global litigation, it is hard not to conclude that Oracle did not wish to allow the Mars matter to be a test case in the United States while it was awaiting resolution of the currently pending European matter.

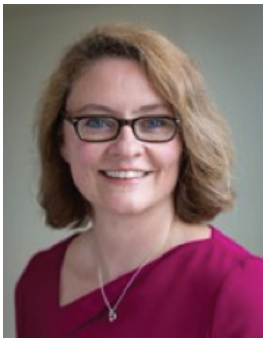
Both US and European Licensees Can Take Some Comfort in Oracle's Reticence to Litigate. Oracle has shied away from litigation in the four years since Mars and the three years since AFPA. While a licensee can never discount the very real possibility that Oracle will, eventually, resort to litigating its "audit script," on a licensee by licensee basis, the chances remain remote.

As such, despite Oracle's notoriously tough position during audits, the savvy licensee can comfortably protect its rights without overwrought concern of hair-trigger litigation ensuing.

Arthur (Art) Beeman



Joel Muchmore



Michelle J. Linderman

Heidi Waem

Résumés

Arthur (Art) Beeman, partner, San Francisco office, Crowell & Moring
Art focuses on the trial and management of complex intellectual property and commercial litigation and has extensive experience handling matters in the telecommunications, internet, software, hardware, medical device, and construction machinery industries.

Joel Muchmore, partner, San Francisco office, Crowell & Moring
Joel is a member of the firm's Litigation and Intellectual Property groups. Joel has substantial experience with appellate issues, as a trial attorney, and in litigating patent infringement, licensing disputes, trademark, trade secret, copyright, unfair competition, and other complex commercial disputes.

Michelle J. Linderman, member of Crowell & Moring's International Trade Group, London office
Michelle is an English qualified solicitor with over 20 years of experience, Michelle advises clients – such as international businesses, traders, ship owners, charterers, insurers, financial institutions, and energy companies – on U.K.-specific and cross-border sanctions, including matters that concern national and international trade and financial sanctions.

Heidi Waem, counsel, Brussels office, Crowell & Moring
Heidi is a member of the firm's Privacy & Cybersecurity Group. Heidi's practice focuses on privacy and data protection, including the General Data Protection Regulation (GDPR).

Licensing Watchdog Organizations May Help Stem Public and, Ultimately, Judicial Opinion. Despite the fact that there is no shortage of public acrimony in the U.S. against Oracle for its auditing and licensing tactics, we are unaware of any prominent organizations that are dedicated to exposing Oracle's licensing tactics (or any other increasingly notorious software licensors). Oracle knows as well as anyone that the impact that such organizations can have on the gradual shift in public opinion cannot be discounted.

Contact: Crowell & Moring
Website: www.crowell.com