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Derivative Works and Video Game Mods Under Copyright Law

Authored by - Divyanshu Mishra

Introduction

Video games are relatively a new art form, emerging in just the last few decades, the first one being Pong. The video game industry in the beginning was just limited to arcades and making of these games was not considered an art form, until recently. Now it is an industry which has even surpassed the movie industry, in terms of the market size¹. The video game industry's market size in 2021 was worth a D 195.65 billion², while movies remained only with a market valued at around D 28.9 billion in 2021³. While the movie industry is expected to grow at a rate of around 7% in the , the video game industry on the other hand is expected to grow at a rate of 14%. India has also seen a huge rise in the gaming industry because of its smartphone and internet boom. Mobile gaming in India is expected to grow at the CAGR(Compounded Annual Growth Rate) of 19.75% from 2022-2027⁴. Indian copyright laws currently have had no cases regarding video games. The Indian video game industry is still in its infancy, but is growing rapidly. This might present a challenge for Indian courts. As intellectual property rights are mainly for encouraging creativity and economic growth, application of Indian copyright laws to the complex issue of modding and marketability of mods is still an open issue.

¹ Patrick Shanley, Why Aren't Video Games as Respected as Movies, HOLLYWOOD REP. (Dec. 14, 2017, 9:00 AM), <https://www.hollywoodreporter.com/heat-vision/why-arent-videogames-as-respected-as-movies-1067314> ("[T]he video game industry earned \$30.4 billion in 2016 in the United States. Films, meanwhile, generated \$11.6 billion in total box office revenue in 2016. This does not include home entertainment sales for films, but Blu-ray and download sales of films do not make up the nearly \$20 billion gap between the two industries.")

² Video Game Market Size & Share Growth Report, 2030, <https://www.grandviewresearch.com/industry-analysis/video-game-market>.

³ Movies And Entertainment Market Size Report, 2030, <https://www.grandviewresearch.com/industry-analysis/movies-entertainment-market>.

⁴ India Mobile Gaming Market to Grow at 19.75% During 2022-2027, <https://www.imarcgroup.com/mobile-gaming-market-india>.

This paper will discuss contemporary cases on copyright licences and game mods. The objective of this paper will be to find out current rulings regarding software ownership and copyright infringement with video game mods. Then, it will try to discover how these issues might play out in the Indian courtroom scenario.

Nature of Ownership of Software

The problem with modding software, specifically video games, arises from the nature of ownership of such games. Customers who have bought software in the past must have noticed that most of the companies these days have been shifting to a subscription based model to sell their software. This trend of subscription has been adopted by Adobe, for its video, audio and image editing softwares. It has also been adopted by Microsoft for their office suite ranging from word processing to spreadsheet management software. This subscription based model was influenced by financial and legal concerns.

A landmark judgement made software companies worried about licensing copies of software to their customers. These softwares require users to sign an End User Licensing Agreement (EULA), which can limit a user's right to resell and modify the software. The courts have recognised the ambiguous nature of many End User Licensing Agreements, and what it could mean for the consumer⁵. Were the companies justified in limiting the rights to a product that a customer now possesses and has paid for? Were the companies afraid of competitors reverse engineering their technology or did they want to gatekeep their customers?

Rights of consumers regarding use of software sold as licences have been given in 3 cases known as the "MAI trio". The MAI trio propounded two principles essential for the rights of consumers and use of copyrighted software, while the last case of the three discussed the application of the principle of essential step. The two principles established by above mentioned cases are; essential step and first sale doctrine. Through these doctrines, the nature of ownership of software was established in legal terms. These cases have been taken up as no such cases have appeared in Indian courts yet. As most software giants are from the , it is safe to assume their jurisdiction will be the most apt to study contemporary software copyright issues.

⁵ Vernor v. Autodesk, Inc., 621 F.3d 1102 (9th Cir. 2010).

First Sale Doctrine's Application for Media and Software

The first sale doctrine, as the name suggests, requires sale of a product. It derives its name from the logic that exclusive rights of distribution can only be enjoyed till the sale of the first copy of the work⁶. Recently, this doctrine has seen exceptions. Before going into how it was applied by courts, let's see what it is.

The doctrine of first sale is propounded in chapter 17 of U.S. code section 109, which says *“the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord”*⁷. While this might be a U.S. doctrine it is also found in Indian Copyright Act 1957 u/s 14(b)(ii).

How this doctrine was applied by the courts can be seen in *UMG Recordings, Inc. v. Augusto*. UMG had sued Augusto while he was trying to sell music promo CDs he had legally acquired on Ebay. Augusto then brought a case against UMG, for misuse of DMCA laws and claimed his sale was protected under first sale doctrine. To invoke this defence Augusto showed:

- “(1) the CDs were lawfully manufactured with UMG's authorization;*
- (2) UMG transferred title to the CDs;*
- (3) Augusto was the lawful owner of the CDs; and*
- (4) Augusto disposed of, but did not reproduce, the CDs.”*⁸

UMG appealed the decision to the Ninth Circuit, to no avail. The court flatly rejected the argument that merely slapping a notice on a copyrighted work prevents the work from ever being resold. The ruling helped cement the principle of first sale in copyright law—once ownership has passed, copyright law no longer interferes with resale of lawfully made books, CDs, DVDs, or other copyrighted works.

⁶ *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350-51, 28 S.Ct. 722, 52 L.Ed. 1086 (1908)

⁷ 17 U.S.C. § 109

⁸ *S. James Otero, UMG Recordings, Inc. v. Augusto*, 558 F. Supp. 2d 1055, Casetext Search + Citator (June 10, 2008), <https://casetext.com/case/umg-recordings-41>.

The right of resale is problematic because it restricts exclusive rights of the copyright holder to be the only distributor of the product. A second hand market can flourish because of first sale doctrine, which effectively makes buying new copies of a software redundant. The landmark case of *UMG v. Augusto* gave us a look into how this doctrine could be applied to digital media, but not softwares with an EULA. The same precedent would not work and last for long. A copy of a music CD is different from software, as it does not require a person to sign an EULA to use it. When the same question was brought up for software, things became more complicated.

This case of sample music CDs propounded the fact that the nature of the contract of ownership or licensing dictates what rights an end consumer can inherit through license. While *UMG v. Augusto* was a win for the consumer, the case consequently also supported nullification of the first sale doctrine, in case of a software. The reliance of judges on the contract of ownership and licensing was supported by a case preceding the UMG case. The UMG case was in 2011 and *Autodesk v Vernor*, which talked of first sale doctrine for software, was in 2010. In the *Autodesk* case, if an EULA stated that the copy of the work will stay with the end user till “perpetuity” and “does not restrict further transfer” of the software or work, it would be considered, “sale of a copy”⁹. This sale of a copy essentially amounted to transfer of ownership of the copy. Therefore, if it was “sale of a copy”, the doctrine of first sale applies, and the consumer gets the right to resell. In conclusion, intent of regaining possession (from the consumer) and no bar on resale of product, through licensing contract, are the two essentials for right to resell. As UMG had previously relied upon transfer of title of CDs through the sale agreement, preference again was given to the nature of the contract of sale and usage, which in the case of softwares is an EULA. The *Autodesk* case was decided contrary to consumer interest as the EULA forbade first sale doctrine by limiting perpetuity of possession and a restriction on resale. Therefore, ironically, a precedent which supported the right to resell in case of UMG also led to over reliance on EULAs, which limited the right to resale for softwares.

⁹ *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175 (9th Cir. 2010).

Essential Step Doctrine

Essential step doctrine states that the owner of the software and product has the right to create copies of a software, if such copy is essential for the use or enjoyment of the product. The essential step doctrine is now codified in U.S. law section 117 of Chapter 17 of U.S. Code, which was first propounded in the case of MAI Sys. Corp. v. Peak Computer Inc.¹⁰ There are two reasons given in law for making such copies:

- “(1). that such a new copy or adaptation is created, as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner, or*
- (2) that such new copy or adaptation is for archival purposes only and that all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful.”¹¹*

While copies for the use of consumers are allowed, they cannot be in violation of the test of essentiality. The right to copy also cannot be absolute, causing financial damage to the owner of copyright. In the case of Wall Data v. Los Angeles County Sheriff's Dep't, 3,663 licences were issued to the defendant but the defendant had installed the software on 6,007 computers via HDD imaging.¹² The defendant had tried arguing without adequate evidence, that at one time only 3,663 users could access the software simultaneously. While the defence of essential step was claimed it could not be applied as “convenience” of the user was not considered enough for the application of section 117.

With reference to video games we see that the test of essentiality cannot be used to defend the right to create copies or use copyrighted work for making video game mods. It is clear from above cases this was only for allowing proper usage of the software not modifications. Though we have not seen even a single court case about the test of essentiality being challenged in Indian courts, we still find the essential step doctrine in Indian Copyright Act 1957¹³ section 52(1)(aa). This doctrine was added in the Indian Copyright law through an

¹⁰ MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511 (9th Cir.1993)

¹¹ 17 U.S.C. § 117

¹² Wall Data, Inc. v. Los Angeles County Sheriff's Dep't, 447 F.3d 769 (9th Cir.2006)

¹³ Copyright Act 1957, section 52(1)(aa)

“ the making of copies or adaptation of a computer programme by the lawful possessor of a copy of such computer programme, from such copy—

(i) in order to utilise the computer programme for the purpose for which it was supplied; or

amendment in 1994. Indian statute on copyright then further stretched this doctrine further in a 2000 amendment. This amendment provided copy protection not just for essential use, but also for interoperability of softwares with other programmes, for learning ideas and principles which went into making the software and for making adaptations and copies from legally obtained, non-commercial use. The year 2000 amendment added section 52(1)(ab) to 52(1)(ad) adding these rights. Though these rights in India are going to cover any video game mod made under section 52(1)(ad)¹⁴, there can be conflicts while deciding whether a game mod is derivative work, adaptation or improvement on the video game. Indian statutes definitely differ with how the U.S. sees the doctrine of essential step, Though U.S. might not provide any protection to video game mods through essential step, the extension of this doctrine for public welfare through section 52(1)(aa)¹⁵ can definitely be used to protect video game mods in India.

Change in Business Model and Limitations of UMG v Augusto

In the case of UMG Recordings, Inc. v. Augusto, a copy of a work of music was in question. But with a copyrighted work which requires an EULA, the following was the landmark case. A copy of AutoCAD, a software, for computer aided design was licenced to Cardwell/Thomas Associates, an Architecture firm. The physical disk copy of the software was sold to Vernor when office equipment was sold. Subsequently, Vernor put up an advertisement on Ebay for the sale of the second hand acquired copy of the software. The sale advert was taken down when Autodesk alleged copyright violation. Vernor's Ebay account was temporarily suspended. Then Vernor filed a suit in the Western District of Washington alleging Autodesk's takedown as unfair trade practice and that he had the first to sell his copy as per the doctrine of first sale. The first sale doctrine whether applicable on software licences or not can be assessed through the following steps by the judges using a test from a 1977 case, U.S. v. Wise:

(ii) to make back-up copies purely as a temporary protection against loss, destruction or damage in order only to utilise the computer programme for the purpose for which it was supplied;”

¹⁴ Copyright Act 1957, section 52(1)(ad)

“the making of copies or adaptation of the computer programme from a personally legally obtained copy for non-commercial personal use;”

¹⁵ Copyright Act 1957, section 52(1)(aa) to (ad) is considered a part and extension of doctrine of essential step, as the explanation preceding (aa) to (ad) says “*incidental storage of any computer programme which is not itself an infringing copy for the said purposes, shall not constitute infringement of copyright.*”. After this explanation, the subsection heading starts from “aa” to “ad”, making it a series, further indicating all the sub-sections are part of the same explanation.

*“(a) whether the agreement was labelled a license,
(b) provided that the copyright owner retained title to the prints,
(c) required the return or destruction of the prints,
(d) forbade duplication of prints, or
(e) required the transferee to maintain possession of the prints for the agreement's duration¹⁶.”*

Judges in this case accepted Autodesk's arguments but criticised the EULA and called it a hodgepodge of terms that standing alone supported both a transfer of ownership and a mere license. This was a hodgepodge as firstly, the physical copy of the product, by fact, was in perpetual possession of Cardwell/Thomas Associates. Secondly, the EULA wanted the copy returned to Autodesk in case of the company dissolving. The EULA stated no mechanism created by Autodesk to regain possession of the said software, which they claimed was not sold to the company, and it was simply licensed in a limited and restrictive fashion. The court, while heavily criticising the EULA and its vague nature, could not deny the fact that first sale doctrine was restricted by the EULA. The nature of the EULA made it a limited license, not a transfer of ownership, unlike *UMG v. Augusto*. Further, as long as it was a licence, the copyright holder also had the right to limit any application of doctrine of first sale throughout the licence.

We see the influence contract law can have on copyright laws through EULA's. Because of this precedent, software companies realised that they needed to change their EULA's and their business model. The fact that they might not be able to stop the existence of a second hand market under a licence sale model made them consider and switch to a subscription based model. There are also benefits to a subscription and licensing model for the end customer. Subscriptions or licences can be provided at different rates to companies and students, only when there doesn't exist a second hand market for the software. But the same can also mean lack of ownership for the consumer, for something they previously once brought and had rights over, to use and to sell off as they pleased.

¹⁶ *United States v. Wise*, 550 F.2d 1180 (9th Cir.1977)

This restrictive nature of owning software has now created problems for video game mods. Art has an element of expression attached to it. Fanbases also try creating their own additions to these video games. Whether this form of expression by fans can be legal or illegal needs to be looked at. Both from an art and expression perspective and legal rights perspective.

Mods v. EULA Agreements

Video game mods as the name suggests are modifications made to aspects of gameplay, visuals or mechanics of the game. Modifications have not been discussed in Indian legal courts but the question of their legality still remains. A video game is built upon a copyrighted piece of software, called a game engine. A game engine is a piece of code or algorithm which forms the backbone of the game. A game engine is also copyrighted and is, in most cases, a proprietary piece of technology developed by the publishing company. It is also essential to note that a video game carries with it multiple copyrights. It has copyrighted music, it has trademarks, it also has storylines, plots and scripts all of which enjoy copyright protection.

US laws regarding copyright seem to have a higher benchmark for originality. Recent judgements also point to U.S. courts propounding that, rights of fair use can be forfeited by a licensee through an EULA dictating the terms of use¹⁷. With reference to video game mods, EULA's further reduce rights of fair use, as well as infringe on first sale doctrine rights. In one of the cases Blizzard (a video game company) sued a mod maker which had created an alternative to its online services. The same company in *MDY v Blizzard* had also sued another mod maker for modifying their game.

Going forward we will see how an EULA can heavily influence statutory copyright laws of a nation. Also, to what extent can an EULA enable or restrict a licence agreement, and will violation be enough to incur copyright liability? Or is an EULA merely a contract and it will be contract violation?

¹⁷ *Davidson v Jung* 422 F.3d 630, See also. *Bowers v. Baystate Techs, Inc.*, 320 F.3d 1317, 1325-26 (Dyk, J., dissenting)

Nexus Test of an EULA Agreements and Copyright Law

Starting with MDY v Blizzard, the most important point this case had propounded was that violation of an EULA doesn't automatically cause violation of copyright laws. It segregated the contract law and copyright law part of an EULA. The test to check for a copyright violation was called The Nexus Test. This test propounded that, if the terms of an EULA are connected to or affect the exclusive rights of a copyright holder, only then will it amount to a copyright violation. Otherwise it would only be termed as a contract law violation.

Facts of the case were that MDY Industries LLC made a program called Glider for the game, World of Warcraft. This modification helped the players play the game through bots and also play when they were not at their computers, to get ahead in the game. Blizzard had included an anti-cheat clause in their EULA which banned bots and the software violated this term. The U.S. courts realized that Blizzard had sued them for copyright violation and this could mean that clauses unrelated to copyright laws could be included in an EULA to unlawfully expand rights of a licence holder. Not to mention copyright violation can be on a penal nature while contract violation is of a civil nature. The DMCA act in the U.S. and sections 63, 63A and 63B of the Indian Copyright Act, all provide for criminal remedies as well.

The modders were held violative of the EULA agreement they had signed, but they were not found guilty of copyright violation. This was the first instance when EULA violation didn't automatically mean the remedy lay in copyright law. In this case the mod makers were not liable for copyright violation but the rights of mod makes were still restricted. Though this was an online game, Glider gave players an unfair advantage, which was termed as cheating and was going to cause Blizzard financial loss. Though the court rules against the modders for cheating, it still has a silver lining. The court saved them from penal provisions and limited their liability of civil punishments, saving such modders from jail time.

Violation of Copyright through EULA Agreement

Now, it is also essential to acknowledge that the game Blizzard, was suing modders over an online game. Any change in such a game can cause financial loss to Blizzard, as they earn from the online service they provide. In a different case, Davidson v Jung,¹⁸ modders had

¹⁸ Davidson v Jung, 422 F.3d 630

created an alternative to Blizzards online service. Tim Jung, the modder, had claimed he did so, as he found Blizzard's online services lacklustre. He created an alternative, "bnetd.org" for players to use and play online. This mod was hit with a permanent injunction by Blizzard. This case of modding also involved an aspect of piracy, as the game was online, battle.net service by Blizzard also acted as a DRM check. This DRM check was absent while using bnetd.org, therefore allowed pirated users of the game to also enjoy the online service. There was also an issue that battle.net was a subscription service offered by Blizzard, and bnetd.org also competed financially with Blizzard's battle.net. The court also noted that it was impossible to create the mod without reverse engineering the code of the game and was violative of the EULA. Here in this case the court propounded that:

*“(1) Blizzard's software end-user license and terms of usage agreements were enforceable contracts¹⁹;
(2) Appellants waived any "fair use" defense;
(3) The agreements did not constitute misuse of copyright; and
(4) Appellants violated the anti-circumvention and anti-trafficking provisions of the Digital Millennium Copyright Act (DMCA)”²⁰*

The defendant was held guilty of copyright violation as this mod compromised Blizzard's financial interest, while reverse engineering their game allowing piracy, which was deemed violative of copyright laws. This video game mod caused direct piracy and financial damage to the publisher of the game. Here we see the limit of protections enumerated in MDY v. Blizzard, and how some EULA agreement can lead to copyright violation.

Indian Laws vs U.S. Laws on Derivative Works and Mods

The test of copyrightable work and criteria of recognition of derivative works differ from India to the U.S. The U.S. uses the test of Modicum of Creativity and does not recognise derivative works as copyrightable. Indian standards of copyright, through the precedent of Eastern Book Company v. D.B. Modak has accepted the test of Skill and Judgement for copyright. That still does not mean that Indian courts would allow mods without any legal hiccups.

¹⁹ Note: Another mention of an EULA being treated as a contract.

²⁰ Davidson & Associates v. Jung, <https://h2o.law.harvard.edu/collages/45578>.

- Firstly, the derivative work that was considered copyrightable in *EBC v. D.B Modak* was a court judgement with additional headnotes for explanation. Court cases in themselves are already in the public domain, and they are not computer softwares. Therefore, facts of this case may not be entirely applicable.
- Secondly, Indian copyright law has separate rights and sections for computer programs and the above precedent deals with different facts. Indian law does not envision computer programs as art forms and deals with them separately.
- Thirdly, video games don't have just one form of copyright associated with them. Characters of a game, scripts, music and even use of the proprietary game engine of the publisher can give rise to copyright issues.

The complicated nature of video games and the copyright associated with them has been summed up perfectly in the paragraphs cited below.

*“...interpretation is in accord with the expressive/functional dichotomy proffered in the case law on reverse engineering. The Ninth Circuit in particular has repeatedly noted that copyright is not to be used as a vehicle to monopolize functional elements. In *Sega Enterprises Ltd. v. Accolade, Inc.*, the court's reasoning suggested that computer programs may contain both expressive (the story) and functional (the physics system) code. This "hybrid nature of computer programs" counseled caution in extending copyright protection for potentially functional elements. *Sony Computer Entertainment, Inc. v. Connectix Corp.* cemented this distinction between functional and expressive software elements.”²¹*

²¹ Spare the Mod: In Support of Total-Conversion Modified Video Games, 125 HARV. L. REV. 789 (2012)

Indian laws provide extended fair dealing protections to computer programs, which as we have seen before, goes above and beyond doctrine of essential step. Section 52 (ad) of Indian copyright law provides protections for making copies and adaptations of a computer program but only for non-commercial and public use. Whether such adaptations can be provided derivative works protection, is still an unanswered question. Projects like Skyblivian are mods which aim to recreate an older game into a new gaming engine, these works of recreation also come close to remakes. If the skill and judgement test is applied, these versions of remakes by fans can be derivative works. While such questions in the U.S. might be based on EULA's and copyright violation, Indian cases might also avail the remedy of derivative works in the future.

Indian courts might have provided protection to derivative works in D.B. Modak, but U.S. courts have not given any such protection to mods. U.S courts have propounded that even a partial mod of a game is considered to be derivative work and therefore only the copyright holder can sell and manufacture such copies. The partial mod in this case was an accelerated version of the game²² and even the Indian test of Skill and Judgement adopted from a Canadian judgement might not consider it a derivative work. Modern mods of games are not that simple, though, most of the time modders add code which is unique to the game, to change its visuals and gameplay. Such code is still protected under U.S. law through the precedent of Lewis Galoob Toys, Inc. v. Nintendo of America, Inc²³. The case involved sale of an external device which modified the game code and was termed as non-derivative product, as it did not contain code made by the game publisher(Nintendo). Under Indian law such modifications can be protected under section 52(1)(ab)²⁴, as the additional code will be the users, when the user wants to add functionality through interoperability it will be protected under this code. It is also worthwhile to mention that, as section 52(1)(ad) specifically restricts adaptations from being sold commercially, the exclusion of such restriction under 52(1)(ab) under Indian code allows the precedent of Galoob Toys, Inc. v. Nintendo of America, Inc, to be valid in Indian courts as well,

²² Midway Manufacturing Co. v. Artic Inter- national, Inc., 704 F.2d 1009 (7th Cir. 1983).

²³ Lewis Galoob Toys, Inc. v. Nintendo of America, Inc, 964 F.2d 965 (9th Cir. 1992).

²⁴ 52(ab)" *the doing of any act necessary to obtain information essential for operating inter-operability of an independently created computer programme with other programmes by a lawful possessor of a computer programme provided that such information is not otherwise readily available*"

This does not mean as long as there is addition of extra code there can be no copyright violation through a mod. Courts in another case, *Micro Star v. FormGen Inc.*,²⁵ found that a mod was being sold for the game Duke Nukem and it used character models of the original game. Courts said it amounted to a derivative work. The mod referenced underlying data in the game and courts were of the opinion that the storyline of the main game could be infringed through the use of characters in it. Here we can see conflict between the Indian benchmark of Skill and Judgment, and the U.S. benchmark of Modicum of Creativity. Mods such as these, which use the same characters can have variations in storyline, can be considered derivative and still enjoy copyright protection with respect to the Indian test. As per D.B Modak case para 57:

“The derivative work produced by the author must have some distinguishable features and flavour to raw text of the judgments delivered by the court. The trivial variation or inputs put in the judgment would not satisfy the test of copyright of an author.”

And as per above test such mods might get protection which might not be available in the test of Modicum of Creativity.

Apart from the nature of the work, Indian law does recognize the doctrine of first sale as part of ownership of software. Through an amendment of section 14(b)(ii) in 1999 the parliament removed the term “regardless of whether such copy has been sold or given on hire on earlier occasions” and recognised the doctrine of first sale. In cases such as, *Black Duck Software Inc. v. CIT*²⁶ and *Engineering Analysis Centre of Excellence Private Limited Vs. CIT & Anr.*,²⁷ Indian courts have tried determining the nature of relationship between a copyright holder and licensee. The latter case differentiated between an EULA for an end user, and a licence giving rights vested u/s 14(b) of the Copyright Act 1957. Both the Indian judgements previously mentioned said, as long as a licence doesn’t confer rights under section 14(b) no payment of royalty occurs. These judgments are regarding what is considered payment of royalties for tax purposes, and as such are unclear on the question of resale of software by an end user, if the EULA does not permit such sale. It does not address the question of applicability of first sale doctrine, neither does it address the difference between copyright clauses and contract law clauses in an EULA. The case was regarding TDS payments on royalties by distributors/wholesalers of software disks. The ratio propounded the difference

²⁵ *Micro Star v. FormGen Inc.*, 154 F.3d 1107 (9th Cir. 1998).

²⁶ *Black Duck Software Inc. v. CIT*, 2017 SCC OnLine ITAT 13068

²⁷ *Engineering Analysis Centre of Excellence (P) Ltd. v. CIT*, (2022) 3 SCC 321

between an end user and a wholesaler. It only made clear that resident distributors/wholesalers paying non-residents for distribution will not be covered under section 9(1)(vi) r/w section 90 of the Income Tax Act 1961; and their payments will not be considered royalties for tax purposes²⁸. While the court recognizes the doctrine of first sale, it is not clear what the Indian stance is with respect to the end user.

As per the interpretation of section 52(1)(aa) to 52(1)(ad), the Indian system might want to protect consumer rights. But looking at international judgements and the influence of the TRIPS agreement on India, this lacuna in interpretation can cause problems, not just in the realm of video games but also other forms of software licences. India would need to decide how it would differentiate the contract side of an EULA from the sale part. Considering the contemporary business model of software companies, it seems unlikely that a subscription based service can avail the remedies of doctrine of first sale.

Conclusion

Due to the rise of the mobile gaming market in India and digitization of our economy, litigation on modified video games and software ownership might soon knock on the doors of our courtrooms. There are already modified versions of mobile games (PUBG and Call of Duty) which circumvent anti-cheat measures while modifying the games in other ways. Websites which host such software files can also soon be hit with litigation. With the rise of the mobile market, India might soon have video game publishers who might want to restrict such modifications. India is also famous for using pirated software without licences and might need clearer laws regarding copyright infringement. Clear laws will not just invite foreign investment, but also make sure domestic industries can be profitable. Quick Heal is one of the few software companies based in India, which can benefit from such clear ownership laws, for their anti-virus service. Recent judgements have also come up concerning Quick Heal but they have been about payment of taxes. Considering the high number of computer graduates in India, game companies might become a substantial part of the Indian economy. Already we see companies like Nooding Heads games, based in Pune, which made a critically acclaimed game called Raji an Ancient Epic. It just seems like a matter of time until Indian courts might have to make some very important decisions regarding rights of software customers and EULA agreements.

²⁸Supra 27