

Online copyright exhaustion in a post-*Allposters* world

by Eleonora Rosati*

The author: An Italian-qualified lawyer (avvocato), Dr Eleonora Rosati is a lecturer in intellectual property law at the University of Southampton, and an independent copyright law and policy consultant.

This article: Article 4(2) of Directive 2001/29 (the 'InfoSoc Directive') provides that the authorised first sale of a work within the territory of the European Union ('EU') exhausts the right of the copyright owner to control any subsequent distribution of the work in question. What the Court of Justice of the European Union ('CJEU') had been asked to clarify in *Allposters* was whether this rule also applies to works that, following their authorised first sale, are subject to an alteration of their mediums and are then re-marketed in this new form.

The court referred to both Recital 28 in the preamble to the InfoSoc Directive and Article 6 of the WIPO Copyright Treaty, including the Agreed Statement on Articles 6 and 7, to hold the view that exhaustion of the right of distribution only applies to the tangible copy of a work.

In so doing, albeit rooted within a very specific (analogue) background, the CJEU appeared to rule out any possibility of having digital exhaustion under the InfoSoc Directive. Whether EU law allows digital exhaustion arguably remains however an unresolved issue, with diverging interpretations being provided at the level of national courts. Yet, despite the legal and economic relevance of allowing markets for second-hand digital works, current EU copyright reform plans seem regrettably not to include any consideration of issues facing general digital exhaustion, or its lack thereof.

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1. The right of distribution in the InfoSoc Directive

The reference for a preliminary ruling from the Hoge Raad der Nederlanden (Supreme Court of the Netherlands) in *Art & Allposters International BV v Stichting Pictoright*¹ concerned interpretation of Article 4 of Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society (the 'InfoSoc Directive').²

By adopting this directive, the European Union ('EU') intended to achieve a number of objectives³, the principal ones being to align EU copyright law with and implement into the EU legal order the 1996 WIPO Internet Treaties⁴, and harmonise certain substantive aspects of Member States' copyright laws.⁵ The latter was justified on consideration that diverging approaches at the national level would cause legal uncertainties and lead to a re-fragmentation of the internal market.⁶ This would negatively affect the increasingly transborder exploitation of works resulting from the emergence of new technologies.⁷ Ultimately, the impact of legislative differences and uncertainties between Member States would hinder economies of scale for new products and services.⁸ Hence, not only should the EU harmonise certain aspects of copyright and related rights, but also inconsistent national legislative responses to technological developments should be avoided.⁹ This would be also necessary to ensure that competition in the internal market is not distorted as a result of differences in the legislation of Member States.¹⁰

¹ Judgment in *Art & Allposters International BV v Stichting Pictoright*, C-419/13, EU:C:2015:27.

² Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, OJ 2001, L 167/10-19.

³ The *travaux préparatoires* to the InfoSoc Directive, as well as other EU directives in the area of intellectual property are available from the website of the Centre for Intellectual Property and Information Law at the University of Cambridge (http://www.cipil.law.cam.ac.uk/legal_resources/european_legislation_and_travaux.php).

⁴ WIPO Copyright Treaty and WIPO Performances and Phonograms Treaty, adopted in Geneva on December 20, 1996. See Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, *cit*, Recital 15.

⁵ See further E Rosati, 'Copyright in the EU: In search of (in)flexibilities', 9(7) *JIPLP* (2014), 585-598, 586-587.

⁶ Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, *cit*, Recital 7.

⁷ Commission of the European Communities, Proposal for a European Parliament and Council Directive on the harmonization of certain aspects of copyright and related rights in the Information Society, COM(97) 628 final, 8.

⁸ Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, *cit*, Recital 6.

⁹ *Ibid*, Recital 7.

¹⁰ Judgment in *DR and TV2 Danmark A/S v NCB - Nordisk Copyright Bureau*, C-510/10, EU:C:2012:244, para 35, referring to the judgment in *Laserdisken ApS v Kulturministeriet*, C-479/04, EU:C:2006:549, para 26 and paras 31-34.

Among other things, the InfoSoc Directive harmonised the main economic rights in copyright, these being the rights of reproduction (Article 2), communication/making available to the public (Article 3), and distribution (Article 4). With regard to the latter, Article 4 provides a harmonised understanding of both its scope (paragraph 1) and the conditions under which the right is exhausted following the authorised first sale of a work within the territory of the Union (paragraph 2):

- “1. Member States shall provide for authors, in respect of the original of their works or of copies thereof, the exclusive right to authorise or prohibit any form of distribution to the public by sale or otherwise.*
- 2. The distribution right shall not be exhausted within the Community in respect of the original or copies of the work, except where the first sale or other transfer of ownership in the Community of that object is made by the rightholder or with his consent.”*

Further guidance as to how Article 4 should be interpreted is provided in Recitals 28 and 29 of the InfoSoc Directive. Among other things, the former states that “[c]opyright protection under this Directive includes the exclusive right to control distribution of the work incorporated in a tangible article.”¹¹ The latter adds that “[t]he question of exhaustion does not arise in the case of services and on-line services in particular.”

With particular regard to the topic of exhaustion, in its proposal for a directive of the European Parliament and Council on the harmonisation of certain aspects of copyright and related rights in the information society, the Commission linked legislative action at the EU level to the need of aligning the laws of Member States to establish a system of regional (Community) exhaustion that would replace national or international exhaustion regimes in place in certain Member States.¹² Overall it was submitted that “[t]he smooth functioning of the Internal Market cannot be guaranteed if Member States apply different regimes in respect of the exhaustion of intellectual property.”¹³ With particular regard to the understanding of ‘copies’ in Article 4, echoing a debate similar to the one subsequently

¹¹ Emphasis added.

¹² Commission of the European Communities, Proposal for a European Parliament and Council Directive on the harmonization of certain aspects of copyright and related rights in the Information Society, *cit.*, 21.

¹³ *Ibid.*, 22.

emerged in relation to whether the Rental and Lending Rights Directive also encompasses electronic rental and lending¹⁴, the Commission clarified that:

“As in the acquis communautaire on this issue, the expression “copies” and “original and copies”, being subject to the distribution right, refer exclusively to fixed copies that can be put into circulation as tangible objects.”¹⁵

In its proposal the Commission also emphasised the particular meaning of exhaustion in the EU context, this being to reconcile the principle of free movement of goods throughout the territory of the Union as per Articles 34-36 of the Treaty on the Functioning of the European Union (‘TFEU’)¹⁶ with the protection of the specific subject matter of intellectual property rights.¹⁷ This specific rationale has been part of EU copyright exhaustion since the seminal decision of the then European Court of Justice in *Metro*.¹⁸

From a teleological reading of both the *travaux préparatoires* and the final text of the directive (interpreted in light of the WIPO Copyright Treaty), it may appear that both the right of distribution and its exhaustion concern a work or its *tangible* copies. This conclusion appears supported by the further consideration that this directive, among other things, implemented into the EU legal order the WIPO Copyright Treaty (‘WCT’). Article 6 WCT provides that:

“(1) Authors of literary and artistic works shall enjoy the exclusive right of authorizing the making available to the public of the original and copies of their works through sale or other transfer of ownership.

(2) Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in paragraph (1) applies after the

¹⁴ See S von Lewinski, ‘Rental and Lending Right Directive’ in MW Walter – S von Lewinski (eds), *European copyright law. A commentary* (Oxford:2010), §6.1.29, opining in the negative. This issue is however currently being considered by the CJEU in a reference for a preliminary ruling from the District Court of The Hague: *Vereniging van Openbare Bibliotheken v Stichting Leenrecht*, C-174/15.

¹⁵ *Ibid*, 27 (emphasis added).

¹⁶ Treaty on the Functioning of the European Union (Consolidated version 2012), OJ C 326, 47-200.

¹⁷ Commission of the European Communities, Proposal for a European Parliament and Council Directive on the harmonization of certain aspects of copyright and related rights in the Information Society, *cit*, 27. See further B Ubertazzi, ‘The principle of free movement of goods: Community exhaustion and parallel imports’, in I Stamatoudi – P Torremans (eds.) *EU copyright law. A commentary* (Edward Elgar, 2014), 39-40.

¹⁸ Judgment in *Deutsche Grammophon Gesellschaft mbH v Metro-SB-Großmärkte GmbH & Co. KG.*, EU:C:1971:59, paras 12-13.

first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author."

What the contracting parties meant by 'copies' in relation to Articles 6 and 7 (Right of Rental) is clarified in one of the Agreed Statements to the WIPO Copyright Treaty:

*"As used in these articles, the expressions "copies" and "original and copies," being subject to the right of distribution and the right of rental under the said Articles, refer exclusively to fixed copies that can be put into circulation as tangible objects."*¹⁹

This might imply that harmonisation of the right of distribution and its exhaustion in relation to works or copies in an *intangible* format has not been achieved at either the international or EU level, thus leaving Member States free to legislate independently in this area. It may be indeed argued that the WCT provided a harmonised understanding of the right of distribution as only applied to tangible copies, but has left contracting parties – including EU legislature – free to determine the exhaustion regime applicable to tangible copies as per Article 6(2) WCT, as well as how to understand the right of distribution and its related exhaustion in relation to intangible copies. While this argument might have some strength, it is also worth highlighting that, should Member States actually implement their own exhaustion regimes for intangible works, the resulting differences might raise barriers to the smooth functioning of the internal market, thus weakening (if not defeating altogether) the rationale of EU legislative intervention with the InfoSoc Directive. Ultimately diverging national digital exhaustion regimes could obstruct the effectiveness of EU policy in the area of copyright.

2. Background

In its reference to the Court of Justice of the European Union ('CJEU') the Supreme Court of The Netherlands sought clarification as regards the rule of exhaustion in Article 4 of the InfoSoc Directive. The response of the Court, which largely followed the Opinion of AG Cruz Villalón in the same case²⁰, has broad implications, especially considering that following the 2012 CJEU decision in *UsedSoft*²¹, a

¹⁹ Emphasis added.

²⁰ Opinion of Advocate General Pedro Cruz Villalón in *Art & Allposters International BV v Stichting Pictoright*, C-419/13, EU:C:2014:2214.

²¹ Judgment in *UsedSoft GmbH v Oracle International Corp*, C-128/11, EU:C:2012:407. See further, *sub* §4.

lively debate has ensued as to whether EU copyright law allows the resale of copyright-protected works in a digital format.²²

The preliminary reference arose from an action brought in the Dutch courts by Stichting Pictoright ('Pictoright', a Dutch copyright collecting society that represents, amongst others, well-known painters), against Art & Allposters International BV ('Allposters') regarding a possible infringement by the latter of copyright administered by the former. Pictoright represents painters, whose works were reproduced by Allposters and marketed as posters. According to Pictoright infringement would result from the transfer of images of protected works from paper poster lawfully purchased by Allposters to a painter's canvas, and the subsequent sale of the images on that new medium. In order to produce an image on canvas, Allposters first applied a synthetic coating (laminare) to a paper poster depicting the chosen work. Next it transferred the image on the poster from the paper to a canvas by means of a chemical process. Finally Allposters stretched that canvas over a wooden frame. The image of the work at hand would disappear from the paper backing during the process.

Pictoright unsuccessfully sued Allposters before the Rechtbank Roermond (Roermond District Court). An appeal was thus brought before the Gerechtshof te 's-Hertogenbosch (Regional Court of Appeal, 's-Hertogenbosch) which in early 2012 annulled the decision of the district court, and upheld most of Pictoright's claims. It did so by relying on the 1979 decision of the Supreme Court of The Netherlands in *Poortvliet*.²³ There it was held that there is a new publication within the meaning of Article 12 of the Dutch law on copyright²⁴, where the copy of a work placed on the market by the rightholder is distributed to the public under another form, to the extent that whoever markets that new form of that copy has new opportunities for exploitation. In other words, in that case the Dutch Supreme Court held that a physical transformation of a physical copy prevents exhaustion.²⁵ Allposters appealed the decision before the Supreme Court, which decided to stay the proceedings and seek guidance from the CJEU on a number of issues, including if Article 4 of the InfoSoc Directive governs the answer to the question whether the right of distribution right of the copyright holder may be exercised with regard to the reproduction of a copyright-protected work which has been sold and

²² Arguing in the sense that general digital exhaustion would not be legally foreclosed, see S Karapapa, 'Reconstructing copyright exhaustion in the online world' (2014) 4 IPQ 307, 324. Arguing that such principle is yet to be recognised, see ET Synodinou, 'E-books, a new page in the history of copyright law?' (2013) 35(4) EIPR 220, 227.

²³ Judgment in *Poortvliet v Hovener*, NL:HR:1979:AC6463.

²⁴ Law on copyright of 23 September 1912.

²⁵ DWF Verkade, 'First Sale' or Exhaustion Doctrine in the Netherlands', in B Hugenholtz and Others (eds), *A century of Dutch copyright law* (deLex:2013), 304.

delivered within the European Economic Area by or with the consent of the rightholder, in the case where that reproduction had subsequently undergone an alteration in respect of its form and is again brought into circulation in that form.

3. The response of the Court

As a preliminary matter the CJEU determined whether the facts at issue in the main proceedings fell within the scope of the InfoSoc Directive. This was because Pictoright had held the view that, on account of the significant alteration of the posters when transferred onto the canvases, the activities of Allposters fell within the right of adaptation and, as such, outside the scope of the InfoSoc Directive.²⁶ Both AG Cruz Villalón²⁷ and the CJEU²⁸ ruled out that the right of adaptation was at stake here, in that both the paper poster and the canvas transfer contained the image of the protected works. As such, these activities fell within the scope of the right of distribution (as well as the right of reproduction). However, unlike the AG who held the view that the right of adaptation is outside the scope of the InfoSoc Directive²⁹, the CJEU did not say whether the right of adaptation falls within or outside the scope of this directive, thus leaving unresolved an issue that has raised diverging views. Besides an issue of academic commentary³⁰, whether the right of adaptation has been implicitly harmonised at the EU level for subject-matter other than software³¹ and databases³² might have implications in determining what room is left for independent national initiatives in respect of this right and its related exceptions and limitations. On the one hand, in its 2014 leaked Draft Impact Assessment on the modernisation of the EU copyright *acquis* the EU Commission argued that the right of adaptation has been *de facto* generally harmonised because of the broad interpretation that

²⁶ Judgment in *Art & Allposters International BV v Stichting Pictoright*, *cit*, para 24.

²⁷ Opinion of AG Cruz Villalón in *Art & Allposters International BV v Stichting Pictoright*, *cit*, paras 59-60.

²⁸ Judgment in *Art & Allposters International BV v Stichting Pictoright*, *cit*, paras 27-28.

²⁹ Opinion of AG Cruz Villalón in *Art & Allposters International BV v Stichting Pictoright*, *cit*, para 56.

³⁰ See S von Lewinski – MW Walter, ‘Information Society Directive’ in Walter – von Lewinski (eds.) *European Copyright Law*, *cit*, 964 and 1479; P Goldstein – PB Hugenholtz, *International Copyright. Principles, Law, and Practice*, 3rd edn (OUP, 2013), 322; L Bently, *The Hargreaves Review of Intellectual Property and Growth. Exploring the Flexibilities available to UK Law* (2011), available at http://www.djei.ie/science/ipr/bently_prof_1.pdf, §§39-40; M van Eechoud and Others, *Harmonizing European Copyright Law. The Challenges of Better Law Making* (Kluwer Law International, 2009), 84; A Ohly, “Economic Rights”, in Derclaye (ed.) *Research Handbook on the Future of EU Copyright* (Edward Elgar Publishing, 2009), 218; PB Hugenholtz – M Senftleben, *Fair Use in Europe. In Search of Flexibilities* (2011), available at <http://www.ivir.nl/publications/hugenholtz/Fair%20Use%20Report%20PUB.pdf>, 26-27.

³¹ Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs (Codified version), OJ 2009, L 111, 16-22, Article 4(1)(b).

³² Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases, OJ 1996, L 77, 20–28, Article 5(b).

the CJEU has given of the right of reproduction within Article 2 of the InfoSoc Directive.³³ On the other hand, in its 2013 *Modernising Copyright* Report the Irish Copyright Review Committee proposed that Ireland adopt its own national marshalling (defined as “a neutral word which ... to cover activities such as the indexing, syndication, aggregation, and curation of online content”³⁴), fair use and innovation exceptions, on consideration that the right of adaptation has not been generally harmonised at the EU level.³⁵

Following consideration of the issue of adaptation, the Court turned to the interpretation of Article 4(2) of the InfoSoc Directive. In his Opinion the AG had held the view that the right of distribution may only be exhausted in relation to the tangible support (*corpus mechanicum*) of a work, not also its *corpus mysticum*.³⁶ The AG appeared to suggest that, not only can there be just analogue exhaustion under the InfoSoc Directive, but this rule is to be interpreted strictly. The one pending before the Dutch Supreme Court would not be a case where exhaustion comes into consideration. The alteration by Allposters was particularly relevant and concerned the same support used for the original artworks.

The CJEU agreed with the AG on this point, and justified its decision by means of both a literal and teleological interpretation of the relevant applicable provisions. First, the Court identified the scope of the right of distribution within Article 4 of the InfoSoc Directive, this being only to encompass a work or a tangible copy thereof. According to the CJEU, this would be because “Article 4(2) of Directive 2001/29 refers to the first sale or other transfer of ownership of ‘that object’”.³⁷ According to the CJEU

³³ EU Commission, Draft Impact Assessment on the modernisation of the EU copyright acquis [provisional title] – Provisional version [to be finalised in light of responses to the public consultation] (2014), available at <http://statewatch.org/news/2014/may/eu-draft-impact-assessment-copyright-acquis.pdf>, 99: “Contrary to the reproduction right and the communication to the public/making available right, there is no express rule with respect to adaptations in the InfoSoc Directive (unlike the Software and in the Database Directive). However, the broad manner in which the reproduction right in Article 2 of that Directive is formulated and the CJEU’s jurisprudence on the scope of the reproduction right notably in [the Judgments in] Infopaq [International A/S v Danske Dagblades Forening, C-5/08, EU:C:2009:465] and Eva-Marie Painer [v Standard VerlagsGmbH and Others, C-145/10, EU:C:2013:138] seem to cover adaptations which give rise to a further reproduction within the meaning of Article 2. The pending case Allposters will shed further light on the scope of Article 2.”

³⁴ Copyright Review Committee, *Modernising Copyright* (2013), available at <http://www.enterprise.gov.ie/en/Publications/CRC-Report.pdf>, 54.

³⁵ *Ibid*, 54-55, 72, and 91. See further E Rosati, ‘Modernising (Irish) copyright Katseries #1: The innovation exception’, The IPKat (31 October 2013), available at <http://ipkitten.blogspot.co.uk/2013/10/modernising-irish-copyright-katseries-1.html>; E Rosati, ‘Modernising (Irish) copyright Katseries #2: linking and marshalling as exceptions’, The IPKat (31 October 2013), available at <http://ipkitten.blogspot.co.uk/2013/10/modernising-irish-copyright-katseries-2.html>; E Rosati, ‘Modernising (Irish) copyright Katseries #3: fair use, Irish-style’, The IPKat (6 November 2013), available at <http://ipkitten.blogspot.co.uk/2013/11/modernising-irish-copyright-katseries-3.html>; E Rosati, ‘The right of adaptation has not been generally harmonised at the EU level: true or false?’, The IPKat (1 May 2014), available at <http://ipkitten.blogspot.co.uk/2014/05/the-right-of-adaptation-has-not-been.html>.

³⁶ Opinion of AG Cruz Villalón in *Art & Allposters International BV v Stichting Pictoright*, *cit*, para 67.

³⁷ Judgment in *Art & Allposters International BV v Stichting Pictoright*, *cit*, para 34.

this conclusion could be drawn from Recital 28, in the sense that *“the EU legislature, by using the terms ‘tangible article’ and ‘that object’, wished to give authors control over the initial marketing in the European Union of each tangible object incorporating their intellectual creation.”*³⁸ As such, exhaustion of the right of distribution would only apply to the tangible copy of a work. According to the Court such interpretation would be supported by international law, notably the WCT. As mentioned, by adopting the InfoSoc Directive the EU legislative indeed implemented it into its own legal order, and the CJEU has made clear in a number of judgments that this piece of EU legislation must be interpreted as far as possible in light of international obligations.³⁹ The CJEU concluded that *“exhaustion of the distribution right applies to the tangible object into which a protected work or its copy is incorporated if it has been placed onto the market with the copyright holder’s consent.”*⁴⁰

The Court then turned to examining whether the fact (as it was the case of the national litigation) that the object, which was marketed with the copyright holder’s consent, has undergone subsequent alterations to its physical medium has an impact on the exhaustion of the right of distribution. The Court agreed with the submission of the French Government that a replacement of the medium would result in the creation of a new object incorporating the image of the protected work. Such an alteration of the copy of the protected work would constitute a new reproduction of that work, within the meaning of Article 2(a) of the InfoSoc Directive. Accordingly,

*“the consent of the copyright holder does not cover the distribution of an object incorporating his work if that object has been altered after its initial marketing in such a way that it constitutes a new reproduction of that work. In such an event, the distribution right of such an object is exhausted only upon the first sale or transfer of ownership of that new object with the consent of the rightholder.”*⁴¹

³⁸ *Ibid*, para. 37.

³⁹ Judgment in *Art & Allposters International BV v Stichting Pictoright*, *cit*, para 38, referring to judgments in *Laserdisken ApS v Kulturministeriet*, *cit*, paras 39-40; *Peek & Cloppenburg KG v Cassina SpA*, C-456/06, EU:C:2008:232, paras 30-31; *Football Association Premier League Ltd and Others v QC Leisure and Others* and *Karen Murphy v Media Protection Services Ltd*, C-403/08 and C-429/08, EU:C:2011:631, para 189; and *Criminal proceedings against Titus Alexander Jochen Donner*, C-5/11, EU:C:2012:370, para 23.

⁴⁰ Judgment in *Art & Allposters International BV v Stichting Pictoright*, *cit*, para 40.

⁴¹ *Ibid*, para 46.

In the Court's view, this interpretation would be also supported by the rationale of the InfoSoc Directive as expressed in Recitals 9 and 10 thereof, this being to provide a high level of protection of, amongst others, authors.⁴²

The CJEU concluded that Article 4(2) of the InfoSoc Directive must be interpreted as meaning that the rule of exhaustion therein does not apply in a situation in which the reproduction of a protected work has undergone a substitution of its medium and is placed on the market again in its new form.

Overall the *Allposters* decision means that when the original work is altered following its authorised first sale in the sense that its identity is altered so that it is no longer 'that object', any subsequent unauthorised modification of the original work shall be regarded as infringing. This judgment is also significant from the broader perspective of EU copyright architecture. The reasoning in *Allposters* appears to rule out any possibility of having digital exhaustion under the InfoSoc Directive. This is possibly also on consideration that in certain contexts the sending and making available of digital works or even digital works themselves may be classified as services, rather than goods, so that the exclusion in Recital 29 would apply in a straightforward fashion. Although not a case involving interpretation of the InfoSoc Directive, but rather interpretation of Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax (the 'VAT Directive')⁴³ as applied to ebooks, this is the conclusion that the CJEU achieved in its recent decision in *Commission v France*.⁴⁴ The Court held that, for the purpose of Article 98(2) of the VAT Directive, an ebook is not a good, but rather an "electronically supplied service" within the meaning of the second subparagraph of Article 98(2) of that directive.⁴⁵

4. Digital exhaustion for computer programs but not other digital works?

In relation to whether the principle of exhaustion applies to copies of digital works, in its judgment in *UsedSoft* the CJEU reached a conclusion in relation to computer programs under Article 4(2) of Directive 2009/24 of the European Parliament and of the Council of 23 April 2009 on the legal

⁴² *Ibid*, para 47, citing the judgments in *Sociedad General de Autores y Editores de España (SGAE) v Rafael Hoteles SA*, C-306/05, EU:C:2006:764, para 36; *Peek & Cloppenburg KG v Cassina SpA*, *cit*, para 37; and *Football Association Premier League Ltd and Others v QC Leisure and Others and Karen Murphy v Media Protection Services Ltd*, *cit*, para 186.

⁴³ Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax, OJ 2006, L 347, 1–118.

⁴⁴ Judgment in *Commission v France*, C-479/13, EU:C:2015:141.

⁴⁵ See further E Rosati, 'Can a decision on the VAT Directive mean that there is no general digital exhaustion under EU copyright?', *The IPKat* (6 March 2015), available at <http://ipkitten.blogspot.se/2015/03/can-decision-on-vat-directive-mean-that.html>.

protection of computer programs⁴⁶ (the ‘Software Directive’), which is seemingly different from what may be extrapolated from the Court’s reasoning in *Allposters* in relation to digital copies falling under the scope of the InfoSoc Directive. Similarly to Article 4(2) of the InfoSoc Directive, Article 4(2) of the Software Directive states that:

“The first sale in the Community of a copy of a [computer] program by the rightholder or with his consent shall exhaust the distribution right within the Community of that copy, with the exception of the right to control further rental of the program or a copy thereof.”

That case was a reference for a preliminary ruling from the Bundesgerichtshof (Federal Court of Justice, Germany) seeking clarification, amongst others, as regards the conditions in which the authorised downloading from the internet of a copy of a computer program can give rise to exhaustion of the right of distribution of that copy in the EU within Article 4(2) of the Software Directive.⁴⁷ The CJEU responded that this is the case if the contractual relationship between the rightholder and its customer may be regarded as a ‘first sale’. Having defined the notion of ‘sale’ as *“an agreement by which a person, in return for payment, transfers to another person his rights of ownership in an item of tangible or intangible property belonging to him”*⁴⁸, the Court held that even a licence agreement may be regarded as a sale for the sake of Article 4(2). This is the case if the copyright holder who has authorised, even free of charge, the downloading of that copy from the internet onto a data carrier has also conferred, in return for payment of a fee intended to enable him to obtain a remuneration corresponding to the economic value of the copy of the work of which he is the proprietor, a right to use that copy for an unlimited period.⁴⁹

The Court referred to parallel provisions in the InfoSoc Directive, notably Article 4 and recitals 28 and 29 thereof, to discuss the possibility of applying them analogically in respect of the Software Directive, and thus exclude exhaustion in respect of intangible copies of a computer program.⁵⁰ The Court suggested that identical concepts used in the Software and InfoSoc Directives must in principle have the same meaning.⁵¹ However it concluded in the negative on this point, thus leaving room for a

⁴⁶ Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs (Codified version), *cit.*

⁴⁷ Judgment in *UsedSoft GmbH v Oracle International Corp*, *cit.*, para 35.

⁴⁸ *Ibid*, para 42.

⁴⁹ *Ibid*, para 72.

⁵⁰ *Ibid*, paras 53-54.

⁵¹ *Ibid*, para 60.

different interpretation of the provisions in these directives.⁵² Taking into account the literal wording of the Software Directive which does not contain any distinction between tangible and intangible copies of the computer program⁵³, together with the *lex specialis* nature of this directive⁵⁴ (later reaffirmed in the ruling in *Nintendo*⁵⁵) which protects “*the expression in any form of a computer program*”⁵⁶, the CJEU acknowledged the existence of a digital exhaustion under this piece of EU legislation.

To justify this outcome, the Court particularly emphasised the rationale of exhaustion in the EU context, this being “*to avoid partitioning of markets, to limit restrictions of the distribution of those works to what is necessary to safeguard the specific subject-matter of the intellectual property concerned*”.⁵⁷ In the Court’s view,

*“To limit the application, in circumstances such as those at issue in the main proceedings, of the principle of the exhaustion of the distribution right under Article 4(2) of Directive 2009/24 solely to copies of computer programs that are sold on a material medium would allow the copyright holder to control the resale of copies downloaded from the internet and to demand further remuneration on the occasion of each new sale, even though the first sale of the copy had already enabled the rightholder to obtain an appropriate remuneration. Such a restriction of the resale of copies of computer programs downloaded from the internet would go beyond what is necessary to safeguard the specific subject-matter of the intellectual property concerned”.*⁵⁸

5. Digital exhaustion after *UsedSoft* and *Allposters*

Following the decisions in *UsedSoft* and *Allposters* it would appear that there might be exhaustion of the right of distribution for digital copies protected under the Software Directive, but not also for

⁵² In this sense also L Bently – B Sherman, *Intellectual property law*, 4th edn (OUP, 2014), 151.

⁵³ Judgment in *UsedSoft GmbH v Oracle International Corp*, *cit*, para 55.

⁵⁴ *Ibid*, para 56.

⁵⁵ Judgment in *Nintendo Co. Ltd and Others v PC Box Srl and 9Net Srl*, C-355/12, EU:C:2014:25, para 23.

⁵⁶ Judgment in *UsedSoft GmbH v Oracle International Corp*, *cit*, para 57.

⁵⁷ *Ibid*, para 62. This grounding in fundamental freedoms of the Treaty is interesting, but note the view that where there is secondary legislation, no appeal can be made ‘directly’ to the Treaty: judgment in *Carlo Tedeschi v Denkavit Commerciale srl*, 5/77, EU:C:1977:144.

⁵⁸ Judgment in *UsedSoft GmbH v Oracle International Corp*, *cit*, para 63.

digital copies falling under the scope of the InfoSoc Directive. In any case, it is worth stressing that *Allposters* was a case that originated from a very specific (and analogue) factual background and that the CJEU did not expressly address the issue of whether Article 4(2) of the InfoSoc Directive is applicable to digital copies.⁵⁹ Overall it would appear that whether the law allows digital exhaustion is yet an unresolved issue, with diverging interpretations being provided at the level of national courts. On the one hand, in upholding a 2013 decision of Regional Court of Bielefeld⁶⁰, in 2014 the Court of Appeal of Hamm held that there is no exhaustion for digital copies of works (audiobooks in that case) other than software.⁶¹ On the other hand, in 2014 the District Court of Amsterdam ruled that ebooks are subject to the principle of exhaustion.⁶² Although this decision was subsequently overturned by the Court of Appeal of Amsterdam, in its ruling the latter did not address whether the law allows for digital exhaustion.⁶³

It is also worth observing that in subsequent case law – notably *Nintendo* – the CJEU might have narrowed down further the scope of application of the Software Directive, with the result of rendering *UsedSoft* applicable to a fairly limited number of situations. In that case the Court held that videogames are under the InfoSoc Directive, on consideration that:

*“videogames ... constitute complex matter comprising not only a computer program but also graphic and sound elements, which, although encrypted in computer language, have a unique creative value which cannot be reduced to that encryption. In so far as the parts of a videogame ... are part of its originality, they are protected, together with the entire work, by copyright in the context of the system established by Directive 2001/29.”*⁶⁴

⁵⁹ Indeed in early April 2015 the Court of First Instance of The Hague made a reference for a preliminary ruling to the CJEU seeking clarification on – among other things – whether the right of distribution may be ever exhausted for ebooks. See further E Rosati, ‘Breaking: Dutch courts refers questions to CJEU on e-lending and digital exhaustion’, *The IPKat* (1 April 2015), available at <http://ipkitten.blogspot.co.uk/2015/04/breaking-dutch-court-refers-questions.html>.

⁶⁰ Regional Court of Bielefeld, 4 O 191/11, on which see E Linklater, ‘Waiting for a lower court to rein in resale? You’d sooner herd cats’, *The IPKat* (1 May 2013), available at <http://ipkitten.blogspot.it/2013/05/waiting-for-lower-court-to-reign-in.html>.

⁶¹ Court of Appeal of Hamm, 22 U 60/13, on which see E Rosati, ‘No exhaustion beyond software: Katfriend translates German decision on audiobooks’, *The IPKat* (1 July 2014), available at <http://ipkitten.blogspot.co.uk/2014/07/no-exhaustion-beyond-software-katfriend.html>.

⁶² District Court of Amsterdam, *Nederlands Uitgeversverbond and Groep Algemene Uitgevers v Tom Kabinet*, C/13/567567/KG ZA 14-795 SP/MV, 21 July 2014, on which see M Olmedo Cuevas, ‘Dutch copyright succumbs to aging as exhaustion extends to e-books’, 10(1) *JiPLP* (2015), 8-10.

⁶³ Court of Appeal of Amsterdam, *Nederlands Uitgeversverbond and Groep Algemene Uitgevers v Tom Kabinet*, 200 154 572/01 SKG NL:GHAMS:2015:66, 20 January 2015, on which see M Olmedo Cuevas, ‘Hot news: Amsterdam Court of Appeal gives Tom Kabinet three days to shut down’, *The 1709 Blog* (20 January 2015), available at <http://the1709blog.blogspot.co.uk/2015/01/hot-news-amsterdam-court-of-appeal.html>.

⁶⁴ Judgment in *Nintendo Co. Ltd and Others v PC Box Srl and 9Net Srl*, *cit*, para 23.

Compliance with the *Nintendo* ruling may mean that, among other things, it will be challenging to sustain successfully that – should the CJEU eventually hold that a different rule on digital exhaustion applies for works protected under the Software and InfoSoc Directives – the right of distribution in a certain videogame would be exhausted following its authorised first sale as a digital copy, with the result that it might not be possible to establish second-hand markets for these works in intangible copies.

6. Is digital exhaustion something for EU judiciary alone?

In the US it is unclear whether the law allows application of the first sale doctrine within §109 of the US Copyright Act⁶⁵ to digital copies⁶⁶, although this provision has been said to be “*technology-neutral: it does not distinguish between analog and digital copies*”.⁶⁷ It is thus arguable that there is nothing in US law that conclusively suggests that the notion of ‘copy’ must be intended as confined solely to tangible copies. The seminal case in this area, *ReDigi*⁶⁸, failed to address specifically issues relating to application of the first sale doctrine to digital copies (pre-owned iTunes files in that case). The US District Court for the Southern District of New York did not tackle the issue of whether the right of distribution had been exhausted, on consideration that this was not needed since the right of reproduction had been infringed. Hence, what the court stated in relation to digital first sale (or rather, its lack thereof) is *dicta*, including that:

“Section 109(a) [of the US Copyright Act] still protects a lawful owner’s sale of her “particular” phonorecord, be it a computer hard disk, iPod, or other memory device onto which the file was originally downloaded. While this limitation clearly presents obstacles to resale that are different from, and perhaps even more onerous than, those involved in the resale of CDs and cassettes, the limitation is hardly absurd – the first sale doctrine was enacted in a world where the ease and speed of data transfer could not have been imagined. There are many reasons, some discussed herein, for why such physical limitations may be desirable. It is left to Congress, and not this Court, to deem them outmoded.”

⁶⁵ 17 USC §109.

⁶⁶ But *cf* further below.

⁶⁷ WF Patry, *Patry on copyright* (Thomson Reuters:2007-2015), §13.23.

⁶⁸ *Capitol Records, LLC v ReDigi Inc.*, No 12 Civ 95, 2012 US Dist.

Similar uncertainties are to be found in the EU in relation to whether and to what extent the principle of exhaustion applies to works in digital format. Despite the potential economic and business relevance of allowing markets for pre-owned digital copies, the issue of whether EU law should envisage digital exhaustion has seemingly disappeared from the policy discussion landscape, at least since the beginning of the term of office of the current Commission.

Between December 2013 and March 2014 the previous Commission had a public consultation on the review of EU copyright rules.⁶⁹ The consultation attracted a broad participation with over 9,500 responses eventually submitted⁷⁰, thus proving much more successful than earlier public consultations.⁷¹ Among the issues put to public consultation, there was whether the principle of EU exhaustion, which “*applies in the case of the distribution of physical copies (e.g. when a tangible article such as a CD or a book, etc. is sold, the right holder cannot prevent the further distribution of that tangible article)*” should in principle “*be applied in the case of an act of transmission equivalent in its effect to distribution (i.e. where the buyer acquires the property of the copy)*.”⁷² According to the Commission this

*“raises difficult questions, notably relating to the practical application of such an approach (how to avoid re-sellers keeping and using a copy of a work after they have “re-sold” it – this is often referred to as the “forward and delete” question) as well as to the economic implications of the creation of a second-hand market of copies of perfect quality that never deteriorate (in contrast to the second-hand market for physical goods).”*⁷³

Such complexity was reflected in the heterogeneous answers that the Public Consultation received⁷⁴, with some Member States (notably France) arguing that international obligations, in particular the

⁶⁹ The text of the public consultation is available at http://ec.europa.eu/internal_market/consultations/2013/copyright-rules/docs/consultation-document_en.pdf.

⁷⁰ The responses are available at http://ec.europa.eu/internal_market/consultations/2013/copyright-rules/index_en.htm.

⁷¹ For instance, the 2008 Green Paper on *Copyright in the Knowledge Economy*, COM(2008) 466/3, available at http://ec.europa.eu/internal_market/copyright/docs/copyright-infso/greenpaper_en.pdf, included a call for comments and there were about 350 in the end, while 2009 *Consultation on Creative Content Online in a European digital single market: challenges for the future. A reflection document of DG INFSO and DG MARKT*, 22 October 2009, available at http://ec.europa.eu/internal_market/consultations/docs/2009/content_online/reflection_paper%20web_en.pdf, only attracted 200 responses.

⁷² Public consultation on the review of EU copyright rules, 13.

⁷³ *Ibid.*

⁷⁴ Directorate General Internal Market and Services – Directorate D-Intellectual Property – D1-Copyright, Report on the responses to the Public Consultation on the Review of the EU Copyright Rules (July 2014), available at http://ec.europa.eu/internal_market/consultations/2013/copyright-rules/docs/contributions/consultation-report_en.pdf, 20-22.

WCT, would exclude any exhaustion of the right of distribution for content downloaded from the internet.⁷⁵

The controversial issues outlined by the Commission also echo concerns similar to those expressed by US Register of Copyrights, Maria Pallante, in relation to having a digital first sale doctrine under US law. During the Twenty-Sixth S. Manges Lecture lecture at Columbia Law School in 2013, Pallante spoke on the need to reform US copyright law, and included digital first sale among the major issues for legislative revision (thus positing that the current wording of the US Copyright Act does not envisage it). After recalling that the rationale of this doctrine is rooted within the common law rule against restraints on the alienation of tangible property⁷⁶ and highlighting at the same time how the “the doctrine of first sale may be difficult to rationalize in the digital context”⁷⁷, she outlined a number of ways in which US Congress might choose to review §109 of the US Copyright Act (which the US Copyright Office had considered, together with a number of other issues, in a 2001 report, without really opining on whether the first sale doctrine ever applies to digital copies of a work though⁷⁸):

“On the one hand, Congress may believe that in a digital marketplace, the copyright owner should control all copies of his work, particularly because digital copies are perfect copies (not dog-eared copies of lesser value) or because in online commerce the migration from the sale of copies to the proffering of licenses has negated the issue. On the other hand, Congress may find that the general principle of first sale has ongoing merit in the digital age and can be adequately policed through technology – for example, through measures that would prevent or destroy duplicative copies. Or, more simply, Congress may not want a copyright law where everything is licensed and nothing is owned.”⁷⁹

Following the conclusion of the Public Consultation, the Commission was due to release a White Paper aimed at identifying possible areas for legislative intervention for the future Commission. This did not happen before the end of the term of office of the previous Commission. In any case a leaked

⁷⁵ Consultation publique de la Commission européenne sur la révision des règles de l’Union européenne en matière de droit d’auteur: Réponse des Autorités Françaises (5 March 2014), available at <https://drive.google.com/file/d/0B6d07lh0nNGUUU16SkFERIk2cEk/view?usp=sharing>, 9.

⁷⁶ M Pallante, ‘The next great copyright act’, 36(3) *Colum. J.L. & Arts* 2013, 315-344, 331.

⁷⁷ *Ibid.*

⁷⁸ US Copyright Office, DMCA Section 104 Report – A Report of the Register of Copyrights pursuant to §104 of the Digital Millennium Copyright Act (2001), available at <http://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-1.pdf>, 20 ff.

⁷⁹ *Ibid.*, 332.

version of an internal draft of such White Paper⁸⁰ suggests that any policy initiative in respect of digital exhaustion was regarded as premature.⁸¹ Rather, “*further observation of how licensing models and technologies evolve would be necessary, as well as an extensive assessment of the consequences that initiatives in this area could have on digital markets.*”⁸²

In its 2015 Work Programme the current Commission announced that modernising EU copyright rules would be part of the package of initiatives on the Digital Single Market.⁸³ Although “[*t*]he level of ambition of the new Commission’s copyright reform remains to be seen”⁸⁴, it would appear that for the moment no policy/legislative initiatives in respect of digital exhaustion would be undertaken. This is so, despite indication in the 2015 Digital Single Market Strategy that better access for consumers and businesses to online goods and services across Europe requires the rapid removal of key differences between the online and offline worlds to break down barriers to cross-border online activity.⁸⁵ Nor has any initiative in this area been recommended by the European Parliament so far. The Committee on Legal Affairs appointed Member of the European Parliament, Julia Reda, as rapporteur on the implementation of the InfoSoc Directive. In her draft report released in early 2015, Reda recommended a number of changes to the *acquis*, but made no specific proposals to address issues facing digital exhaustion or lack thereof.⁸⁶

It may thus appear that in the medium term no policy/legislative initiatives will be advanced in the area of digital exhaustion at the EU level. One might wonder whether the CJEU is the institution best placed to determine whether exhaustion of the right of distribution should only (continue to) apply to

⁸⁰ European Commission, White Paper on A copyright policy for creativity and innovation in the European Union, available at <https://www.dropbox.com/s/0xcflgrav01tqlb/White%20Paper%20%28internal%20draft%29%20%281%29.PDF>. See further E Rosati, “Super Kat-exclusive: here’s Commission’s draft White Paper on EU copyright”, *The IPKat* (23 June 2014), available at <http://ipkitten.blogspot.co.uk/2014/06/super-kat-exclusive-heres-commissions.html>.

⁸¹ European Commission, White Paper on A copyright policy for creativity and innovation in the European Union, *cit.*, 7.

⁸² *Ibid.*

⁸³ European Commission, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Commission work programme 2015: A new start, COM(2014) 910 final, Annex 1, available at http://ec.europa.eu/atwork/pdf/cwp_2015_new_initiatives_en.pdf, 2.

⁸⁴ European Parliament Research Service, A connected Digital Single Market. State of play and the way forward (January 2015), available at http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/545734/EPRS_BRI%282015%29545734_REV1_EN.pdf, 7.

⁸⁵ European Commission, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on A *digital single market strategy for Europe*, COM(2015) 192 final, 3.

⁸⁶ Committee on Legal Affairs, Draft report on the implementation of Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, 2014/2256(INI), available at <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONGML+COMPARL+PE-546.580+02+DOC+PDF+V0//EN&language=EN>.

the tangible support of a work or instead deem all this outmoded. The Court appeared to suggest the latter approach in *UsedSoft*, but then did not go as far as extending the principles expressed therein to works protected under the InfoSoc Directive. In addition, in subsequent case law (*Nintendo*) the Court might have appeared to restrict the scope of application of the Software Directive, with the effect of also limiting application of the principles expressed in *UsedSoft*. In the US *ReDigi* judgment Judge Sullivan stated that whether the law should envisage a digital first sale doctrine is a matter for the legislative, rather than courts. Yet at the EU level it would appear that whether the law should – or rather: should not – allow for digital exhaustion is due to remain for some time a matter for the judiciary alone.