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Digital exhaustion in European Union  

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Abstract

The plea of applying the exhaustion doctrine to intangible copies of copyrighted artistic works has been extensively discussed within scholar circles. Although, the debate substantially concerns provisions of the international treaties and the explanation of the exhaustion doctrine under European Union copyright law, the subject brings more uncertainties. Under the European Union copyright law the distribution right is exhausted after the first sale with the consent of a right holder. However, there is neither explicit regulation nor decision in regard to the exhaustion doctrine to the online resale of digital goods. As the act of distribution is shifting and fulfilled through digital means these days, the application of the first sale doctrine is challenged. The given work provides with the legal, organizational and technological analysis of the exhaustion doctrine under European Union copyright law and possible scenarios in respect to digital secondary market.

Keywords: copyright, exclusive rights, exhaustion doctrine, digital exhaustion, e-books.
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<tr>
<td>Berne Convention</td>
<td>Berne Convention for the protection of Literary and Artistic works [as amended on September 28, 1979]</td>
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<td>EEA</td>
<td>European Economic Area</td>
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<tr>
<td>CJEU or ECJ</td>
<td>Court of Justice of European Union</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>EULA</td>
<td>End-user license agreement</td>
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<tr>
<td>Member States</td>
<td>Austria, Belgium, Bulgaria, Croatia, Cyprus, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom</td>
</tr>
<tr>
<td>Rental and Lending Directive</td>
<td>Directive 2006/115/EC on rental right and lending right and on certain rights related to copyright in the field of intellectual property [2006] OJ 2 376</td>
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<td>TRIPS</td>
<td>The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)</td>
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<td>WCT</td>
<td>WIPO Copyright Treaty [2002]</td>
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1. INTRODUCTION

1.1 Background

Progress is unavoidable. During last decades people have witnessed the enormous and unstoppable progress within digital consumption of goods and both physical and printed goods have been shifted into digital means. Subsequently, classic criminal books from bookshelves might be stored within a small device called Kindle. What is more, our favourite music is no more restricted to a tangible medium like vinyl. Movies and shows are now streaming online through Amazon or Netflix. Physical copies of books, DVDs or vinyl recording may be easily found on a second-hand market with a lower price compared to new copies. The interesting question that arises at this point is the matter of digital second-hand market.

Before the era of Internet, the method of consumption and exploitation of copyrighted works was based on physical distribution. In other words, people used to buy or borrow books from bookstores or libraries as a tangible medium.

European copyright law entitles the copyright holders with exclusive rights. Those prerogatives allow copyright holders to prevent others from specific actions, such as distribution, reproduction or communication to the public to name a few, when they are not assigned with the rightholder’s authorization. However, the exhaustion doctrine, incorporated in European Union law system, and provided by Article 4 of the Information Society Directive and Article 4 of Software Directive set particular limitation for distribution right. Accordingly, once a copy or original of a particular copyright protected work, such as a book, is put into the market by the rightholder or with his consent; his rights of distribution in regards to this particular sold work are exhausted. He is no longer able to control the further circulation of the work, as the first sale exhausted this privilege.

Interesting situation occurs when a person decides to buy a digital content, such as a music file or electronic book. The particular file is chosen; the customer decides to push the button “buy now” and finalizes the transaction with paying the given price. However, as an acquirer of an intangible good, is this person entitled to the same prerogatives as the buyer of a tangible work? Is he able to exploit the digital copy the same way as with the physical copy? Consequently, should acquires of digital copies be provided with the same rights as those who

possess the tangible copies? The answer to the aforementioned questions is up for debate whether or not the copyright doctrine of exhaustion should apply to digital content.

The technological development is the cause of the following transformation of exploitation of the subject matter. The ways that a work might be produced, created, distributed or exploited emerge every day. Following the development of digital technology, social needs have followed the very same direction.

As long as there are significant differences between tangible and intangible mediums, the digital realm evolves and brings on certain aspects, such as applicability of the exhaustion doctrine in digital domain.

1.2 Research questions

The main purpose of this work is to discuss the doctrine of exhaustion in the digital realm basing on European Union copyright jurisdiction and the European Court of Justice case law. The thesis provides with a detailed analysis in regard to the doctrine of exhaustion and it’s possible existence in the digital environment. Within this thesis, the following questions will be of subject:

1. What is the exhaustion doctrine? What are benefits that are provided by the aforementioned principle to consumers, rightholders and society?
2. Within the digital world what are the challenges that abbreviate the application of the exhaustion doctrine in regard to digital content?
3. Is there any room for digital exhaustion based on the EU copyright law?
4. Taking into consideration available technologies on the market, which approach is the best in regard to balancing the rights of consumers, right holders and society?

1.3. Delimitation

The framework of this thesis is 1) international conventions related to copyright and of relevance for presented questions, which are Berne Convention and the WIPO Copyright Treaty, 2) European Union copyright law, namely the Information Society Directive and the Software Directive, and 3) CJEU case law related to digital exhaustion of copyright. Nevertheless, some national decisions are taken into consideration on account of lack of
harmonization on the given topic and diversity in decisions by national courts. The purpose of this is to demonstrate conflicting approaches within the European Union member states and the need of explicit decision in regards to digital exhaustion.

1.4. Method and materials

In order to address and clarify the presented questions and aim of the work, doctrinal legal research, non-doctrinal legal research and comparative legal research are the methodology of this work. The doctrinal legal research consists of case law, legal publications, textbooks and commentaries (e.g. judgements of courts) in order to: 1) identify legal context and sources needed for further research on presented topic, 2) identify legal issues 3) apply the law to specific facts 4) relate given legal dispositions to presented issues 5) present results. These texts will help to clarify the complexity of the matter in question. In addition, empirical legal research was included as to to present how the copyright law affects society (e.g. innovation of technology and access to content, challenges and perspectives given by new business models). Concerning comparative legal research, a focus was given upon analysis of national and international articles and their applicability regarding European Union law.

The research materials consist of legal and non-legal sources. Legal sources include national law, regional legislation and international law diplomas. Furthermore, legal sources include legal articles, books, journal publications and legal opinions. As to non-legal sources, they are used in this work in order to present relevant information and current opinions on the presented topic (e.g. reports and news publications).

1.5. Structure

This work is divided into eight chapters. The first one provides with the introduction on the topic, research questions, delimitation and method and materials. The second part focuses on the definition of copyright and exclusive rights. The third one highlights the principle of exhaustion doctrine in European Union with information regarding the territoriality of exhaustion. The fourth one provides with information regarding the challenges, which exhaustion doctrine faces in the digital realm. The fifth and sixth parts focus on presentation of relative dispositions, which are international law and EU copyright
law as to examine whether they enclose the digital exhaustion. These two chapters are followed by relevant case law and its interpretation provided by Court of Justice of European Union. The seventh part deepens the principle of exhaustion in the light of digital world by presenting new business models and reconsideration of given topic. The last, eighth part provides with final conclusions.
2. COPYRIGHT AND EXCLUSIVE RIGHTS

Copyright and related rights play a crucial role in the context of protection and stimulation of development and marketing. This includes not only new products and services but also, the creation and exploitation of the creative content expressed within. Copyright is designed to protect cultural interest and to balance both: the copyright holders interest and public one at the same time. It ensures that creators of artistic work will receive protection, payment and recognition. As to achieve the aforementioned, copyright holders are provided with exclusive rights, which may be considered as a form of monopoly on the particular created work.

European Union legislation provides with many directives, which set harmonized standards, integrate and ensure the level of protection for rights holders.

The Information Society Directive grant the copyright holder the following exclusive economic rights: a) right of reproduction, b) right of communication to the public of works and right of making available to the public other subject-matter, c) right of distribution. Copyright consists of another set of rights, which are known as: performance rights, broadcasting, translation, adaptation and moral rights. However, moral rights are not harmonized on European Union level.

Some exceptions and limitations to the right of copyright holder may be perceived as to aim the balance between public interest and interests of rights holders. One of those limitations is exhaustion – or differently known as “first sale doctrine”- which strives to balance the competing interests. The concept of exhaustion is to be found as one of the most fundamental principles of copyright. It sets limitations for the author’s exclusive right of distribution, gathered with the ownership interests of lawful acquires of copies of protected subject matter. On the purpose of providing clear retrospective of a problem, the focus will be given upon the distribution right.

Pursuing to abovementioned exclusive right, the right holders can control the distribution of their artistic works within the European Union and it entitles the author of a

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4 European Commission; Strategy; Digital Single Market; Policies; Copyright; accessed: 25.05 available here: https://ec.europa.eu/digital-single-market/en/copyright
5 Article 2 of InfoSoc Directive.
6 Ibid, Article 3.
7 Ibid, Article 4.
work to require his consent for any form of distribution of his work. The disposition that underlines the exhaustion principle in the European Union provides that the distribution right shall be exhausted after the “first sale” or any other transfer of ownership, which was initiated by the copyright holder or with his consent within the Community. What is more, the exposition of distribution right provides with no information regarding any subsequent distribution of the work after the first sale. Consequently, “once particular copies are in circulation (…), the right no longer operates in relation to those objects. Because distribution does not include “any subsequent distribution”, copyright owners cannot control resale”.

Moreover, in the understanding of Information Society Directive, the principle of exhaustion applies exclusively to the right of distribution.

3. THE PRINCIPLE OF EXHAUSTION IN COPYRIGHT LAW IN THE EUROPEAN UNION

Exhaustion applies and occurs automatically when certain conditions are met. Accordingly, there are four elements, which exist and should be distinct within the meaning of exhaustion doctrine. These are as follows:

1. the right holder or another person with the authorization who can
2. lawfully distributes, and what is more transfers the ownership over
3. the original or the copy of the protected subject matter;
4. the rightful owner, which possesses the ownership of the subject matter, may resell the copy without the further consent and authorization of the author.

The first of a conceptual basis presented above considers the matter of the person who is a right holder of the specific work or an authorized person. It indicates that the first distribution shall be initiated by, or with the direct consent of, the original or consecutive rights holder. This reflects the established jurisprudence of the Court of Justice, which aims

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9. “This is the principle of „exhaustion”, first recognized in the context of trade between member states, but extended by the directives into the definitione of the right and thus equally applicable to transactions within member states” (Bently, Lionel, and Brad Sherman. Intellectual Property Law. 4.th edition Oxford: Oxford University Press (2014), 150-152).
10. Article 4(2) of Information Society Directive.
15. Ibid
at reconciling the principle of free movement of goods throughout the Community with the protection of the specific subject matter of intellectual property right.\textsuperscript{16}

It is worth mentioning that even though the general provisions of contract law play slight role in granting support to authors and performers during the negotiations of exploitation agreements and the determination of the level of remuneration\textsuperscript{17}, the right holder shall have the opportunity to demand a fair remuneration for the transfer of ownership over the copy (initial distribution) of the protected and specific subject matter.\textsuperscript{18} In other words, it allows the person known as an author to be compensated with effort, time and money that they sacrificed in creating the work in question. The statement from recital 10 of Directive 2001/29 reads as follows: “If authors and performers are to continue their creative and artistic work, they have to receive an appropriate reward for the use of their work, as must producers in order to be able to finance this work”.\textsuperscript{19} Otherwise it would be immoral and arbitrary if someone else was allowed to take out the profits of someone’s intellectual property. Moreover, the proper remuneration may be the cause to drive creativity, and what follows, technological progress and economic growth.

Secondly, the distribution shall be performed lawfully, in accordance with the provisions stated and provided by law and specifically, copyright law. Accordingly, exhaustion doctrine shall not apply to all products, which were or are to be distributed illegally, such as counterfeit or piratical products to name a few. Pursuing to above, it might be said that the exhaustion contributes to the maintenance of cultural heritage. Nowadays, consumers try to find new ways to watch their favourite movies or stream new music albums as soon as possible after the release. As sales of physical copies seem to decline, the contradictory happens in regard to digital sales of all content types.\textsuperscript{20} Nevertheless, the piracy of digital content has been steadily decreasing e.g. due to copyright enforcement through specific civil or administrative measures.\textsuperscript{21}

The third part of presented doctrine concerns the actual subject of the exhaustion, which accordingly are original or the copy of the protected subject matter. The expression

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\textsuperscript{17} European Commission Report, Remuneration of authors and performers for the use of their works and the fixations of their performances; European Union 2015, accessed: 5.02 available here: http://publications.europa.eu/resource/cellar/c022cd3c-9a52-11e5-b3b7-01aa75ed71a1.0001.01/DOC_1, p.4

\textsuperscript{18} Recital 10 of InfoSoc Directive.

\textsuperscript{19} Ibid.

\textsuperscript{20} University of Amsterdam, Institute for Information Law, Global Online Piracy Study, July 2018, 7. available here: https://www.ivir.nl/publicaties/download/Global-Online-Piracy-Study.pdf

\textsuperscript{21} Ibid.
\end{flushleft}
“copies” and “originals and copies” that might be found above, are subjects to distribution right and they do refer to fixed copies that may be put into circulation as tangible objects.\(^{22}\)

However, the right of distribution is not unlimited. Copyright protection under the Directive includes the exclusive right to control distribution of the work incorporated in a tangible article.\(^{23}\) The development of Internet and increasing popularity of so-called, online “second hand” stores, where one may buy or sell used content delivered digitally, highlights serious problems and questions whether the doctrine of exhaustion may apply to digital content. The matter will be further explained in upcoming chapters.

Pursuing to above, as a matter of clarifying, the significant differences between tangible and intangible medium should be defined, from a physical perspective.

The definition of “tangible” states as follows: “capable of being perceived especially by the sense of touch”\(^{24}\) and “substantially real”.\(^{25}\) As a creative work needs to be recorded or preserved somehow, and it is incorporated into a product, the product may turn into a subject of a trade. If the creative work is supposed to be perceived as a book, it should be written down on the paper. For instance, the manuscript of the Magnus Eriksson’s National Law Code, hidden within walls of Carolina Redivia Library in Uppsala, is fixed in a tangible medium. Moreover, songs or music should be recorded or stored so that someone else would be able to hear or read them.\(^{26}\) To sum up, the work that falls within a definition shall be able to be read, heard, and seen by others.

Forth and at the same time the last part aims the matter of the rightful owner, which possesses the ownership of the subject matter, and who may resell the copy without the further consent and authorization of the author. In other words, the consumption of the work in question, stored on a tangible medium after the first sale lies within the responsibility of the lawful owner, who possesses the ownership over the protected subject matter. The distribution right shall be exhausted where the first sale or other transfer of ownership in the Community of that object is made by the rightholder or with his consent.\(^{27}\)

As mentioned before, a person who acquires the ownership (a copy owner) over a specific product and wants to resell the product needs to obtain the copyright owner’s permission. Accordingly, the copyright owner may demand and extract the compensation on


\(^{23}\) Recital 28 of InfoSoc Directive.


\(^{25}\) Ibid.

\(^{26}\) See Recital 29 of InfoSoc Directive.

\(^{27}\) See Article 4(2) of InfoSoc Directive.
the first sale or any other transfer of ownership over the original or a copy of a protected subject matter so long as the sale or the aforementioned transfer of ownership takes place with the copyright owner’s consent. What is more, such compensation is understood as an equitable and proper recompense. In principle, the product can be freely resold, and the copyright owner cannot assert her exclusive right of distribution to prevent such resale.\textsuperscript{28} In such way, the person who purchases the book from a bookstore, the copy owner, determines the next step for the already purchased product and can use it in whatever way he pleases.

Namely, the copyright holder “exhausted” their distribution right and their possibility of a further consent and authorization, which was acquired through an approved first sale. For that reason, the subsequent transfers and sales of the product are permissible. This may be perceived as a general disposition of exhaustion theory within the European Union.\textsuperscript{29} Moreover, in sense of competition law, the copyright holder shall not control all forms of distribution once the transfer of ownership has been fulfilled. Otherwise, the monopoly given by economic rights would be perceived as an absolute one.

\section*{3.1. Territoriality of exhaustion}

The purpose of the exhaustion doctrine is to balance the protection of free trade and intellectual property.\textsuperscript{30} There are two important elements, which describe the principle of exhaustion. In the first place there is the matter of exhausted rights as only the right of distribution, marketing and sale are a subject of exhaustion after the first sale within the domestic market. Other rights, such as reproduction, public performance or lending remain with the intellectual property rights holder and are not a subject of exhaustion after the approved first sale.\textsuperscript{31}

Secondly, there is an aspect of territoriality nature of exhaustion. This indicates that the exclusive right of first sale of the right holder may only be exhausted within the specific territory, where the protection is granted. In accordance with above, there are three categories of the territorial exhaustion that are distinguishable.\textsuperscript{32}

The national exhaustion is widely recognized and provides that in each nation once the rightholder has authorized the distribution of a particular copy within the national territory,
the right to authorize subsequent distribution of that copy has been exhausted. Accordingly, the right holder cannot enforce his exclusive rights against other in regard to that specific copy.\textsuperscript{33} Furthermore, the second approach is known as the international exhaustion. In principle it pertains to a situation when a copy, once placed on the market by or along with the rightholder’s consent in any place in the world, the copy can circulate freely in any country unconstructed by national exercise of distribution right.\textsuperscript{34}

The last identifiable category is called Community exhaustion. In the context of European Community, it states that once a particular copy has been put on the market within that specific Community, by or along with consent of rightholder, the copy can circulate within the Community. In other words, the abovementioned ceases the intellectual property rights of the rightholder after the legit first sale of the copy.\textsuperscript{35}

In respect to disposition given in Information Society Directive, the legislator directly states that the exhaustion of distribution right with respect to the original or a copy of the work applies when the first sale or other transfer of ownership of that object is made (by the rightholder or with his consent) within the Community.\textsuperscript{36} The abovementioned provision clarifies the territoriality of exhaustion on the Community level.

3.2 The exhaustion doctrine

Prior to codification in InfoSoc Directive regarding the exhaustion, the ECJ has unfolded the principle of “Community-wide exhaustion”. The matter of “public” directly occurs when it comes to recognition of the exhaustion principle within the Community. According to disposition, the sale within one Member State of the European Union (or the EEA) exhausts the right of distribution for the entire European Union (and EEA). This guideline applies due to the fact that territorial restrictions on the movement of goods are contradictory with the internal market.\textsuperscript{37}

This limitation of economic right is also called the first sale doctrine, as the rights of commercial exploitation for a given product end with the products first sale.\textsuperscript{38}

\textsuperscript{33} Ibid.
\textsuperscript{34} Ibid.
\textsuperscript{35} Ibid.
\textsuperscript{36} Article 4(2) of InfoSoc Directive.
\textsuperscript{38} World Intellectual Property Organization; Cooperation; Small and Medium-sized Enterprises; IP for Business; Export Opportunities; International Exhaustion and Parallel Importation, accessed: 4.03,
Even though the term “first sale” may imply that the mandatory element for exhaustion is directly connected to sales and a product being “sold”, the perception emphasise a broader definition. It highlights action that is signified as a transfer of ownership in any possible way, such as giving a book to a friend as a birthday gift. In regard to wording of Information Society Directive, the legislator implies that the term “sale” shall be interpreted in a uniform and independent manner far and wide within the European Union.\(^{39}\)

In principle the distribution right is strictly connected to any kind of action that involves the transfer of ownership, subsequently excluding the public lending, rental\(^{40}\) and display.\(^{41}\) Accordingly, “while unlike Article 6 of the WCT, Article 4(1) is not confirmed to transfers of ownership, the ECJ has equated distribution with transferring ownership, so mere display of work or copy is not a distribution”.\(^{42}\) Moreover, rental and public display are regulated by another Directive and are not perceived as distribution.

As stated by Article 4 of InfoSoc Directive, the rightholder has an exclusive right to authorize or prohibit any form of distribution to the public by sale or otherwise.\(^{43}\) The term “to the public” is somehow not perfectly clear and shall be understand in respect of the character of the audience. To briefly explain, the audience may be linked to personal or general connection to other people. The limitation of the right of distribution is in regard to a small personal network, such as a family or company network. The circulation of infringing copies within those networks is excluded from liability. However, the transfer of a specific copy between two individuals, who might be named as a retailer and wholesaler, would be classified as a distribution “to the public”.\(^{44}\)

The principle of international exhaustion does not apply according to disposition provided by Article 4(2) and Recital 28 of the InfoSoc Directive. As maintained by the InfoSoc Directive, the exhaustion arises only after the act of first sale within “the


\(^{40}\) The rental and public lending is regulated by Directive on Rental Right and Lending Right and on certain rights related to copyright in the field of intellectual property, [2006] OJ 2 376.

\(^{41}\) C-456/06, *Peek & Cloppenburg SA v. Cassina SpA* [2008] (ECJ): The German Court asked the Court of Justice whether distribution „by sale or otherwise”, in regards to wording of Article 4(1) of the Information Society Directive, could be interpreted to enclose the display in the shop of an article or use by customers as well as display in a shop window. The Court said that the phrase „or otherwise” is restricted to situations were ownership of the goods was transferred.


\(^{43}\) Article 4 of InfoSoc Directive.

Community. Consequently, any other transfer of ownership that happened outside the Community (any part of the world) does not generate exhaustion of distribution rights.

A further issue that will need to be confronted is the digital market and possible exploitation of copyrighted works. Accordingly, difficulties have arisen in applying the principle of exhaustion once the copyrighted works have been distributed in electronic way. As stated before, the right of distribution gives the right holder a right to put a copy, into commercial circulation. Therefore, the right of distribution shall be exhausted by every single act of distribution, namely the transfer of ownership. What is more, the right to control the act of reproduction establishes that only the copyright holder may make any reproduction or copies of the specific work. They may “authorize or prohibit direct or indirect, temporary or permanent reproduction by any means and any form”.

Those particular difficulties become apparent because the abstract justification for exhaustion is to balance the property rights in an intangible work, which is the expression, with the property rights in a tangible incorporation, such as a hard copy of the work. However, the Recital 29 of the InfoSoc Directive directly states that “the question of exhaustion does not arise in the case of services and on-line services in particular” and what is more “[...] namely an item of goods, every on-line service is in fact an act which should be subject to authorization where the copyright or related right so provides”.

In consequence, once the person purchases a tangible copy of the work, such as a book or DVD, he is entitled and free to resell it according to the first sale doctrine. Nevertheless, the abovementioned rule does not apply to a situation when a person downloads an electronic copy to the computer.

With the age of progress of online distribution in digital format come risk and threat to intellectual property. While the progression opens new opportunities for recipients in respect of information, culture and development, it also affects copyrighted works.

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45 Article 4(1) of InfoSoc Directive.
46 Ibid, Article 2.
4. CHALLENGES OF DIGITAL REALM

4.1. Reproduction right

As it was stated before, the Information Society Directive provide with the exclusive right of reproduction, which is set out in the Article 2. This provision is strictly connected to the right of making copies of the specific copyrighted work. In practical terms, it requires that each European Union Member State shall provide for an exclusive right to accordingly: “authorize or prohibit direct or indirect, temporary or permanent reproduction by any means and any form, in whole or in part”\(^\text{49}\) for copyright holders.

The matter of reproduction right plays a crucial role in today’s digital environment. Unlike the time when the exploitation and usage of copyrighted works did not specifically include reproduction as such, future technology may bring challenges regarding the reproduction of copyrighted contents. The reproduction act from one device to another may be understood as a very common habit and act in the society of 21st century. In the manner of explanation, a particular digital content may be transferred from one user to another in various different ways and by any means. The digital work may be passed on through the reproduction of a digital content or by passing on the data medium, where the original buyer of the content stores the actual data file.\(^\text{50}\) Consequently, the exploitation of a digital copyrighted works in such way may constitute the infringement, which touches upon not only distribution right, but also the right of reproduction and communication to the public.

The act of distributing digital content over the Internet is connected to the implication of creating temporary copies in many technology devices such as computers or routers. In other words, once an initial user of the digital file distributes the very same file through the Internet (for example by sending an email with the attachment of e-book) to another user, the action implies creating copies on some devices like both computers and router. As stated above, the possibility provided by the digital era of using digital files that are stored on the digital format involves the act of reproduction - as loading the work into hard drive creates the copy that implicates the aforementioned act.\(^\text{51}\)

\(^\text{49}\) Article 2 of InfoSoc Directive.
\(^\text{51}\) Perzanowski, Aaron, Schultz, Jason „Digital Exhaustion” 58(4) UCLA Law Review (04/01/2011), 891.
Pursuing to above, a user might be limited when it comes to the usage of the digital work only to the device, which stores the content. The exploitation of the digital content will be exclusively referred to one device, on which the user purchased the content. As it will be presented in upcoming chapters, even if the content - which was previously shared by digital means – is deleted by the initial user, the whole action may still constitute the copyright infringement as its transfer enclose creating copies.

4.2. End-user licence agreement (EULA)

Nowadays, the marginalization of the exhaustion doctrine has increased as the technology development brings new possibilities every day. It is more common to be perceived as a “subscriber” or “user” than a “buyer” which constitute the dichotomy sale vs. licence. As the distribution of content through digital platforms or channels becomes habitual, people tend to be tied to specific on-demand services that offer them unlimited access to the digital content, such as music or movies.

The aforementioned dichotomy serves as a dilemma whether to determinate the applicability of exhaustion on digital files or not, since the main requirement for exhaustion is the lawful “sale or transfer of ownership” of the copy of artistic work. Since the traditional act of sale includes the transfer of ownership over a copy, determines exhaustion of rights and is enclosed within contractual law, the licence agreement that is commonly established between the user and service sets out particular terms. Licenses provide with specific limitations as they: “...(…) do not entail any transfer of ownership, but only a variously limited authorization to use the protected work for a definite or indefinite period, with a retention of title”.\(^52\) It is worth mentioning that such platforms are usually perceived and qualified as a service instead of a good.

According to case of UsedSoft, which is discussed in Chapter 6, the court defined “sale” as autonomous concept of European Union law. Further, it was interpreted as “an agreement by which a person, in return for payment, transfers to another person his right of ownership in an item of tangible or intangible property belonging to him”.\(^53\) What is more,


the court opted for the consideration of licence and download as a single undertaking, due to their mutual indispensability for the transaction.\textsuperscript{54}

Even though the possibility to have an unlimited access (until terminated by the user or licensor) to digital content may be understood as a ownership for the consumer, from the legal perspective, such act as licensing do not transfer the ownership. As a result, the consumer does not own the content, as right holders restrict any form of act that may cause the transfer of the title to the specific copy.\textsuperscript{55}

5. DIGITAL EXHAUSTION UNDER EUROPEAN UNION LAW

The doctrine of exhaustion was firstly developed on national level and different countries regulated the scope of economic rights in substantially different ways, including the limitations.\textsuperscript{56} The first document that shed a light of the matter of exhaustion is the TRIPS Agreement, originally adopted in 1994. The statements regarding exhaustion within aforementioned Agreement disclose the matter of national treatment and most-favoured-nation treatment when it comes to exhaustion.\textsuperscript{57} Accordingly, “for the purposes of dispute settlement under this Agreement, subject to the provisions of Article 3 and 4 nothing in this Agreement shall be used to address the issue of exhaustion of intellectual property rights”.\textsuperscript{58} Furthermore, the next Article contains the encouragement of protection and enforcement of intellectual property rights regarding the promotion of technological innovation, dissemination of technology and balance of rights and obligation to name a few.\textsuperscript{59} It is worth mentioning that TRIPS Agreement contains some provisions that may be regarded as likeliness to doctrine of exhaustion, such as the right of rental or importation of counterfeited goods.\textsuperscript{60}

\textsuperscript{55} Perzanowski, Aaron, Schultz, Jason „Digital Exhaustion“ 58(4) UCLA Law Review (04/01/2011), 901.
\textsuperscript{57} see Article 3 and Article 4 of TRIPS Agreement.
\textsuperscript{58} Article 6 of TRIPS Agreement.
\textsuperscript{59} Ibid, Article 7.
\textsuperscript{60} see Article 11 and Article 51 of TRIPS Agreement.
5.1. International Law: Berne Convention and WIPO Copyright Treaty

Berne Convention contributes with the rules regarding the protection of works and the rights of their authors. The Convention provides creators with the specific measures to control how their works are exploited, by whom and on what terms. Furthermore, it covers literary, scientific and artistic works consisting of books, paintings, photographic works, and musical compositions to name a few. The protection shall be contributed for the benefit of author and his successors. It stands in need of preserving the right of reproduction, translation, adaptation, public performance, public recitation, broadcasting and film. It adheres to national treatment, which indicate that each member state needs to give the same copyright protection to works from other member nations, just like protects its own domestic works. Even though the Berne Convention also provides with the exclusive right of reproduction and distribution, there is no information included regarding the exhaustion of rights when it comes to the first sale doctrine.

The World Intellectual Property Organization (WIPO) Copyright Treaty (WCT) is a special agreement established under the Berne Convention. The convention shed a light upon the protection of works and rights of their authors in a digital realm. The WCT was adopted on December 20, 1996 together with the WIPO Performances and Phonograms Treaty. The scope of protection of copyright “extends to expressions and not to ideas, procedures, methods of operation or mathematical concepts as such”. Moreover, it expands on the aspect of computer programs and emphasise that those are protectable as literary works within the meaning of Article 2 of Berne Convention, whatever is the mode or form of their expression.

As it is closely connected to the Berne Convention and pertains to the rights recognized by it, it also grants certain economic rights. It provides that authors shall “enjoy the exclusive right of authorizing the making available to the public of the original and copies

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61 Berne Convention for the Protection of Literary and Artistic Works.
63 Article 2(6) of Berne Convention.
65 Article 9 of Berne Convention.
66 Ibid, Article 14.
67 Article 2 of WIPO Treaty.
69 Ibid.
of their works through sale or other transfer of ownership”. Though the general right of distribution is conferred through the Treaty, the aspect of exhaustion is also explored. Accordingly, the Contracting Parties of WTC shall determine the conditions under which the exhaustion “applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author”.

As previously stated, the exclusive rights granted by the Treaty refer to original and copies of the work. However, there is no specific insight if those designations refer to both physical and not physical copies, or only physical ones. The answer may be found within the Agreed Statements concerning the disposition related to distribution right and exhaustion, adopted by the Diplomatic Conference at the same day the WTC was acquired. Accordingly, it points out that “as used in these Articles, the expression “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”.

The aforementioned statement confirms that exhaustion is exclusively applicable in relation to tangible objects, so for example books or discs to name a few. Pursuing to above, the transfer of ownership or sale of copyrighted goods in digital form do not cause the exhaustion in principle. Furthermore, the authors and creators may still control the spread of their works in the market.

Nonetheless, the wording regarding the right of distribution and exhaustion that might be found in Agreed Statements still leaves the concern whether it should sustain the status of international law or not. It is worth mentioning that the Treaty itself does not contain any clarification in that matter and it is unclear what weight the Agreed Statements wording carry. The question that remains is whether the clarification should have the weight of law or not – if so, it should have been literally included in the Treaty. Nevertheless, the practice shows that it might be used as guidelines of the underlying aims and intentions of the WTC.

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70 Article 6(1) od WIPO Treaty.
71 Article 6(2) of WIPO Treaty.
73 Ibid.
75 Case C-419/13 Art & Allposters International BV v Stichting Pictoright [2015] (ECJ).
5.2. European Law

In the European Union the matter of distribution right was recognized in the Software and Database Directives. However it was the InfoSoc Directive, where the legislator introduced the harmonized general rights regarding this specific exclusive right granted to the copyrights holder.\textsuperscript{76} The regulation set by the Directive, brings a particular interest in the approach given by the legislator regarding the balance between the interest of rightholders and both public and competitors in respect of copyrighted works and their accessibility.\textsuperscript{77}

5.1.1. The possible interpretation of Article 4 of InfoSoc Directive in regard to tangible or intangible work

The InfoSoc Directive has been adopted in terms of protecting the copyrighted works in digital environment and is triggered to respond to technological challenges.\textsuperscript{78} It provides the right holder with exclusive right of distribution, which aims to authorize or prohibit any form of distribution to the public by sale or otherwise.\textsuperscript{79}

As it has been previously stated, the right of distribution is a subject to exhaustion after the first lawful sale, or any other form of convey of the ownership, of copyrighted works or any other copy thereof with the copyright holder’s consent. However, the InfoSoc Directive provides with no specific answer when it comes to digital exhaustion of copyrighted works. As stated in Article 4(2) od InfoSoc Directive, “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”. As mentioned above, the disposition of abovementioned Article does not provide with a broader definition of the “object”. This raises the question whether the exhaustion applies only to hard copies or also to intangible objects.

Nevertheless, in the Recital 28 of Directive where legislator addresses the right of distribution and exhaustion, he mentions, “copyright protection under the Directive includes the exclusive right to control distribution of the work incorporated in a tangible article”.\textsuperscript{80} The

\textsuperscript{77} Ghidini, Gustavo, ”Exclusion and access in copyright law: the unbalanced features of the InfoSoc directive”, Rivista di Diritto Industriale, Forthcoming, University of Milan, Luiss University, School of Law, (2013); 307.
\textsuperscript{78} Recital 6 and 7 of InfoSoc Directive.
\textsuperscript{79} Article 4(2) of InfoSoc Directive.
\textsuperscript{80} Ibid, Recital 28.
wording of disposition leaves many possible interpretations, which depends on different levels of strictness and qualification that makes the concrete word more specific.

The first interpretation may lead to restrictive comprehension and refers exclusively only to hard copies of goods. In this understanding of that term, the intangible goods would be kept outside the scope.

Moreover, the second approach may guide to interpretation that the word “include” do not directly exclude the goods that are signified by a different nature than those that are touchable. In other words, the disposition includes both, tangible and intangible goods and the exhaustion of distribution right would apply regardless the possible natures of goods.

Nonetheless, the third and last possible explanation leaves the understanding of the term not specified and remains to be opened for interpretations that shall be applied by courts, either European Court of Justice or national courts. It is worth mentioning that however the legislative activity on Community level might be initiated, those responds may have a different outcome and may result the significant differences in protection. Accordingly, it would be necessary for European Court of Justice to provide with the specific interpretation of law so the national courts did not diverge regarding the same matter and so to avoid significant legal differences and uncertainties. This would adhere to one of intents of InfoSoc Directive, which stands for the consistency of internal market between Member States.

5.1.2. The possible interpretation of principle in Software Directive comparing to Article 4 of Information Society Directive in regard to tangible or intangible work

Computer programs are considered as a fundamental significance of industrial development. According to disposition of Copyright Treaty, they are considered as artistic works and shall be protected by the copyright law with the meaning of Berne Convention.

In principle, the term “computer program” shall encompass “programs in any form, including those which are incorporated into hardware” and “preparatory design work leading

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81 Recital 6 of InfoSoc Directive.
82 Ibid.
83 Recital 3 of Software Directive.
84 Article 4 of WCT.
to the development of a computer program provided that the nature of the preparatory work is such that a computer program can result from it at a later stage”.  

Furthermore, the Directive articulates the possibility of copying computer programs in information society pointing out that they “can be copied at a fraction of the cost needed to develop them independently”.  

Thereupon Software Directive provides with rules on their protection and determinates specific rights for copyright holders, which are given in Article 4(1) of a Directive. This dictates four exclusive rights of the rightholder to do or to authorize: the permanent or temporary reproduction of a computer program, the translation, adaptation and any form of distribution to the public including the rental. What is more, the legislator provides with the regulation of the matter of first sale in regards to computer programs. Therefore, “the first sale in Community of a copy of a program by the rightholder or with his consent shall exhaust the distribution right within the Community of that copy”.  

However, wording of Art. 4(c) of Software Directive does not limit the distribution right to a specific embodiment of media; it directly refers to “any form” of distribution.

Pursuing to above, neither Article 4 nor recitals of the aforementioned Directive do not provide us with a specification regarding the embodiment of a computer program in regard to exhaustion of the subject matter. It is not literally and directly stated whether a computer program should be affixed in a tangible medium or not for the purpose of potential exhaustion of the distribution right.

As well as it was stated above in regard to Information Society Directive, wording of the disposition in Software Directive leaves door open for possible interpretations. From the economic point of view, it should be pointed out that whether the sale is achieved through the transfer of ownership of a computer program stored on DVD or CD-ROM, or being available through download, those forms of sale are similar. Accordingly, the on-line transmission method is the effective and operative coequal of the supply of a material medium. The reading might be that the legislation qualifies irrelevance when it comes to the embodiment of the work (whether the tangible or intangible medium) in respect to applicability of principle

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85 Recital 7 of Software Directive.
86 Ibid, Recital 2.
87 Article 4(1) of Software Directive.
88 Article 4(2) of Software Directive.
of exhaustion. The aforementioned approach is ruled by the CJEU in the case of *UsedSoft vs. Oracle*.

6. DIGITAL EXHAUSTION UNDER THE EUROPEAN COURT OF JUSTICE CASE LAW

As stated in Chapter 3, the doctrine of exhaustion applies to the distribution of tangible embodiment of works.\(^91\) As the presented exposition gives the impression of being excluded from WIPO Copyright Treaty\(^92\) the Information Society Directive seems to consist of some possibilities to whether the digital exhaustion shall be considered as applicable or otherwise obviated. The same matter would have been pertained in connection to the Software Directive if it had not been already clarified the Court of Justice of European Union.\(^93\) The following chapter is about to present the applicability of exhaustion principles ruled by the Court of Justice of European Union. The presentation shall start with the decision of Court in the case of *UsedSoft vs Oracle* regarding computer programs and regulated under Software Directive. The aforementioned will be followed by the evaluation of *Allposters* and *VOB vs Stiching* cases under the Information Society Directive.

6.1. *UsedSoft v Oracle*

The sale of copyrighted works and their copies is regulated under Information Society Directive and the principle of exhaustion is laid down in Article 4(2). In regard to the core of the matter, the exclusive right of distribution is exhausted once the original or a copy has been sold within the EU/EEC area along with the consent of the right holder. After the first sale, the buyer and thus the owner of the copy, may proceed with the subsequent sale of a copy without obtaining the rightholder’s consent. According to the matter in question of the *UsedSoft vs. Oracle* case, in the case of software, the principle of exhaustion is regulated under Article 4(2) of Software Directive.

In the aforementioned case, a company named Oracle develops and markets computer programs. The company distributes the software to customers by allowing them to download

\(^91\) See Recital 28 of InfoSoc Directive.
\(^92\) Look at the Article 6 of the WTC and Art. 6 and 7 of Agreed Statements.
the copy of software directly to their data carries from suppliers website, i.e. Oracle’s website. The user has a right to store the software perpetually on a server and can allow a specific number of users to have an access to it by downloading the software to the main memory of their workstations.

The right for such a program is granted by the license agreement between the purchaser and supplier and includes the right to store a bought copy of the program permanently on a server. Further, the license is characterized by being able to update bought versions of software and programs through Oracle’s website by downloading so-called “patches”. There is a possibility to receive a physical copy of the program supplied on CD-ROM or DVD, at the purchaser’s request.

Moreover, in terms of license agreement, it was characterized by a non-exclusive, non-transferable and free of charge right of use of the software under the following agreement, inclusively for internal business proposes for an unlimited period of time.

On the other hand there was a company *UsedSoft*, which, as the name suggests, deals in used software licences, including user licences for the Oracle computer programs. Accordingly, *UsedSoft* Company obtained aforementioned user licences, or some parts of them, from customers of Oracle, where “the original licences relate to a greater number of users than required by the first acquirer”. Once *UsedSoft* started offering used Oracle licences, they stated that those licences were current in the sense that the maintenance agreement concluded between the initial licence holder and Oracle was still in force and a notarial certificate confirmed the legality of the transaction. Consequently, second-hand buyers, in other words *UsedSoft* clients, were able to acquire used copies by the shortest route – by downloading them from the website of Oracle.

As the case proceedings were stayed at the Federal Court of Justice in Germany, the court concluded that actions of *UsedSoft* and its customers infringed exclusive right of Oracle, which is the right of permanent or temporary reproduction of computer programs within the meaning of Article 4(1)(a) of Software Directive.

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95 *Ibid*.
96 See C-128/11, *UsedSoft GmbH v Oracle International Corp.* [2012] (ECJ), p. 23: “Grant of rights” under the licence agreement: „With the payment for services you receive, exclusively for your internal business purposes, for an unlimited period a non-exclusive non-transferable user right free of charge for everything that Oracle develops and makes available to you on the basis of this agreement‟.
Nevertheless, the Court referred to CJEU with three questions in regards to exhaustion of distribution right of intangible copies of software that were a matter in question in the case.\(^\text{101}\) As a result, the judges of Court of Justice of European Union turned into mythological characters, oracles, to decide on the exhaustion issues and address them correspondingly.\(^\text{102}\) To put it concisely, the court found that the digital distribution of the copy of the computer program exhausts exclusive right of distribution in the meaning of Article 4(2) of Software Directive. Furthermore, an original acquirer of computer program, who is about to resell a tangible or intangible copy of it shall make his own copy unavailable and unusable at the time of it’s resale (accordingly to avoid the infringement of the right of reproduction of a computer program which belongs to the author within the meaning of Article 4(1) of Software Directive).\(^\text{103}\)

Secondly, the Court found that in order to determine, whether the right holder’s distribution right is exhausted, the matter of “first sale […] of a copy of a program” should be defined and provided with a broad interpretation of that matter. Pertain to a commonly known and accepted definition, a “sale” is:

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\text{“an agreement by which a person, in return for payment, transfers to another person hid rights of ownership in an item of tangible or intangible property belonging to him. It follows that the commercial transaction giving rise, in accordance with Article 4(2) of Directive 2009/24, to exhaustion of right of distribution of a copy of a computer program must involve a transfer of the right of ownership in that copy”} \text{,} \quad \text{\textsuperscript{104}}
\]

Pursuing to above, the court concluded that the distribution of a copy of a program by downloading the copy through digital means and the conclusion of a user licence agreement

\(^{\text{101}}\) Ibid, para 34;  \nQ1: "Is the person who can rely on exhaustion of the right to distribute a copy of a computer program a „lawful acquirer” within the meaning of Article 5(1) of Directive 2009/24?”;  
Q2: "If the reply to the first question is in the affirmative: is the right to distribute a copy of a computer program exhausted in accordance with the first half-sentence of Article 4(2) of Directive 2009/24 when the acquirer has made the copy with the rightholder’s consent by downloading the program from the internet onto a data carrier?”;  
Q3: "If the reply to the second question is also in the affirmative: can a person who has acquired a „used” software licence for generating a program copy as „lawful acquirer” under Article 5(1) and the first half-sentence of Article 4(2) of Directive 2009/24 also rely on exhaustion of the right to distribute the copy of the computer program made by the first acquirer with the rightholder’s consent by downloading the program from the internet onto a data carrier if the first acquirer has erased his program copy or no longer uses it?”

\(^{\text{102}}\) An oracle was known as a gateway to know and understands the will of Gods; see: https://www.historyextra.com/period/ancient-greece/ancient-prophecy-oracles-and-the-gods; [Accessed: 19.03].


\(^{\text{104}}\) Ibid, p. 42.
Moreover and crucially, the Court also ruled that in regard to perpetual nature of the license, the unlimited period of time should be considered as akin to ownership.\textsuperscript{106}

Thirdly, according to the Court, the matter of notion of “lawful acquirer” in the meaning of Article 5(1) of Software Directive applies as a result of the exhaustion of the distribution right laid down in Article 4(2). Pursuing to above, as the copyright holder cannot neither object nor forbid the resale of a copy of a computer program for which the exclusive right of distribution is exhausted. Consequently, a subsequent acquirer of that copy and any another after him are perceived as “lawful acquirers” of the copy.\textsuperscript{107}

Pertain to above the exhaustion is triggered:

1. Once the distribution of a computer program is done using digital means (in other words, online transmission),
2. The transaction is made with non-exclusive and non-transferable perpetual licence for that program in accordance to which,
3. Purchaser pays disposable fee in order to obtain a remuneration that corresponds to the economic value of the computer program, of which he is the proprietor.\textsuperscript{108}

The Court of Justice of European Union pointed out in it’s decision that according to disposition of Article 4(2) of Software Directive, there is no distinction of specific embodiment of the copy of program with respect to the exhaustion of distribution right.\textsuperscript{109} Consequently, it shall be read in the way to enclose “any form of computer program”.\textsuperscript{110} With reference to Article 4(2) and Recital 7\textsuperscript{111} of Software Directive, the Court concluded that the European Union legislature likens both embodiments of the copy of program, offline and online world, for the purpose of the protection constituted within Software Directive.\textsuperscript{112}

As indicated above, the case of \textit{Used-Soft vs. Oracle} brings end to the discussion in regard to digital exhaustion for computer programs after first sale. It is worth mentioning that

\begin{flushleft}
\textsuperscript{105} \textit{Ibid}, p. 84.
\textsuperscript{106} \textit{Ibid}, p. 44-46.
\textsuperscript{107} \textit{Ibid}, p. 88.
\textsuperscript{108} \textit{Ibid}, p. 72 in accordance to p. 43-50.
\textsuperscript{109} \textit{Ibid}, p. 55.
\textsuperscript{110} \textit{Ibid}, p.57.
\textsuperscript{111} Recital 7 of Software Directive: “For the purpose of this Directive, the term „computer program” shall include programs in any form, including those which are incorporated into hardware. This term also includes preparatory design work leading to the development of a computer program provided that the nature of the preparatory work is such that a computer program can result from it at a later stage”.
\textsuperscript{112} C-128/11, \textit{UsedSoft GmbH v Oracle International Corp. [2012] (ECJ), p.57-58.}
\end{flushleft}
as long as the understanding of disposition of Software Directive in the matter of exhaustion has been clarified, the CJEU did not address the question of whether the digital exhaustion should be considered the same way to works regulated under InfoSoc Directive. Yet, the aforesaid decision may be a referred in respect to other types of works protected by copyright.

It is worth mentioning that in respect to software programs, the matter of exhaustion and resale rights will repeatedly appear. Pursuing to abovementioned case, the devil is always hidden in details, which in this case are contract terms. Accordingly, the title of the specific agreement (and limitation included therein) does not provide with the clear answer whether the agreement represents the licence or an actual sale. What is more, the aforesaid shed a light on a problem whether the change of contract law should be reconsidered or not. After all, it is affirmative that digital files will be acquired by and under the licence agreement rather than through sale.

The ruling of UsedSoft vs. Oracle might be considered as a game changer. The significance of decision might go beyond the area of software and accordingly reach other matter, such as the music or e-book market to name a few. It might be the announcer of important changes of how the copyright may adapt itself to the digital realm and accordingly how this may leave a room for additional discussions and considerations. Nonetheless, “software is different in many respects from books. Software is valuable not for its creativity or originality but for its functionality, which is normally carved out from copyright protection in the U.S. and the EU”.

Yet in accordance to books, one may think about the tangible embodiment of it. Nevertheless, the interesting problem appears in regard to the subject in question which follows: how the issue should be solved when the matter at stake is connected to e-books and the second hand market processed through the online transmission. The stated will be presented and discussed later. As stated before, taking into consideration the significance of the UsedSoft vs. Oracle decision, one may contemplate that it’s rationale may be applied further for a different matter. As an example (and the subject that shall be considered further) would be a situation when a consumer, previously authorized by the licence agreement, downloads an e-book from a website. Applying accordingly the rationale from UsedSoft decision, once the consumer uses it for unlimited period of time and pays a disposable fee (to obtain a remuneration that corresponds to the economic value of the copy of work, of which

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he is the proprietor), the aforementioned would be most likely considered not as a licence but as a sale in accordance to the approach presented in *UsedSoft vs. Oracle* decision.

Nevertheless, it should be pointed out that the Information Society Directive makes a clear distinction regarding the right of making works available to the public and distribution right. Accordingly, it is explicitly stated that exhaustion doctrine does not apply in accordance to making a copy available to the public.\(^{114}\) Furthermore, from the logical and analytical point of view, once the work is downloaded by the acquirer, it constitutes the duplication of already existed copy and accordingly the operation should be understood as an infringement of the reproduction right stated in Article 2 of InfoSoc Directive. As long as the disposition in Software Directive constitutes *lex specialis*,\(^{115}\) the presented arguments do not deny findings in *UsedSoft vs Oracle* stated by the CJEU. However, they may stand on the way in accordance to other artistic works that are not a computer program.

However, as long as the decision is considered a sensible one, there are still some inferences in accordance to the first sale doctrine, contractual involvement and their responsibility for future rulings as presented above.

### 6.2. *Art & Allposters vs. Stichting Pictoright*

A second case of relevance for the topic of exhaustion of exclusive rights is *Allposters vs. Stichting Pictoright*. The presented case refers to artistic works that are regulated under the Information Society Directive and concerns the application of copyright exhaustion beyond the software field. The matter concerned the “possible” infringement of copyright perpetrated by Allposters in accordance to the transfer of images of protected works from a paper to a painter’s canvas and accordingly, the sale of those “modified” images on that particular new medium.

The factual background of case refers to Pictoright, the company based in Netherlands, which looks after the interests of copyright owners, opposed the aforementioned sale of canvas on the ground of violation of the right of reproduction, which is an exclusive right of

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\(^{114}\) It is stated in Article 3(3) and supported by Recital 29 of InfoSoc Directive: „This also applies with regard to a material copy of a work or other subject-matter made by a user of such a service with the consent of the rightholder”.

\(^{115}\) C-128/11, *UsedSoft GmbH v Oracle International Corp.* [2012] (ECJ), p. 51: “[…] The provisions of Directive 2009/24, in particular Article 4(2), thus constitute a *lex specialis* in relation to the provisions of Directive 2001/29, so that even if the contractual relationship at issue in the main proceedings or an aspect of it might also be covered by the concept of “communication to the public” within the meaning of Article 3(1) of the latter directive, the “first sale…of a copy of a program” within the meaning of Article 4(2) of Directive 2009/24 would still give rise, in accordance with that provision, to exhaustion of the right of distribution of that copy”.

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the copyright holder. As the sales were performed without the consent of the holder of that copyright, Allposters were called to stop the infringing activity of the rightholder’s copyright and moral rights.\footnote{Proceedings were held in Rechtbank Roermond (Roermond District Court) in the first instance were the court dismissed the action. The decision was appealed before Gerechtshof te ‘s-Hertogenbosch (Regional Court of Appeal) which annulled the decision and provided a different approach.} In the latter view presented by the Regional Court of Appeal, the alternation of the content and what follows the marketing of transformed canvas constitutes an infringement of distribution right, as the exclusive right in that manner has not been exhausted.\footnote{Consequently, Allposters brought an appeal in cassation disclosing that there is exhaustion of the distribution right within the meaning of Article 4(2) of Information Society Directive in the manner of distribution of a work that was incorporated into a tangible. What is more, it was pointed out that the work has been offered for sale by the copyright holder or under the copyright holder consent and that any kind of subsequent alternation has no impact on exhaustion of exclusive right of distribution.} Consequently, Allposters brought an appeal in cassation disclosing that there is exhaustion of the distribution right within the meaning of Article 4(2) of Information Society Directive in the manner of distribution of a work that was incorporated into a tangible. What is more, it was pointed out that the work has been offered for sale by the copyright holder or under the copyright holder consent and that any kind of subsequent alternation has no impact on exhaustion of exclusive right of distribution.

It is worth mentioning that outside the software filed the degree of modification that would be sufficient to claim that the exhaustion of rights does not apply is still unsettled. Pursuing to the Allposters case, there are two interesting findings of Court of Justice of European Union. Firstly, the Court brings up the matter of tangible embodiment of an object into which protected work or its copy is incorporated and finally to which the doctrine of exhaustion applies.\footnote{According to abovementioned, “the expression “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”.} Secondly, the Court stated that the consent of the copyright holder does not cover the distribution of an object that incorporates his work in that manner if the object has been altered after the initial marketing and as a matter of fact constituted a new reproduction of that

\footnote{The Court referred to Article 6(1) of the WIPO Copyright Treaty, „which provides that authors of literary and artistic works are to enjoy the exclusive right of authorising the making available to the public of the original and copies of their works through sale or other transfer of ownership. In that regard, the significance of the term „copy” was explained by the Contracting Parties by an agreed statement concerning Articles 6 and 7 of the Treaty adopted by the Diplomatic Conference of 20 December 1996, at which the Treaty itself was also adopted.}
work. In other words, it was confirmed that exhaustion of distribution right does not apply to works that have been modified. Consistently, the copyright holder is in right to oppose the distribution of the altered work even though there was an actual consent of his for the distribution of the original work.

The Court held that a specific replacement of the medium is considered as a “new object” and accordingly such a modification of the copy of the protected work is sufficient to talk about a new reproduction (which is covered by exclusive right of the author and it requires his authorization). It was concluded that it is important whether the modified object itself and taken as a whole, is literally and physically the same one that was placed into the market with the rightholder’s consent. Once the action might constitute a new reproduction, there is a need of an authorization from the rightholder. As an explanation of it’s reasoning, the Court brought Article 4(2) and Recital 28 of Information Society Directive.

The background of presented case directly refers to exhaustion of tangible medium that falls within the protection of the Information Society Directive. However, the position of the court may be found as a controversial one. It is worth mentioning that the court determined the sufficient and proper reward for the copyright holder in the presented case of Allposters vs. Stichting without taking into consideration the position of the person acquiring the copyrighted work (as it happened in UsedSoft case).

It is clear that there are different approaches to digital exhaustion under the Software Directive and Information Society Directive, which may be problematic when it comes to the future practise, as many copyrighted works might be found complex and multi-layered in their construction. Accordingly, they could even fall within the protection provided by both Directives. Following the reasoning in Infopaq case, as some parts of the work fall within the protection of copyright if they share “the originality of the whole work”.

Pursuing to above, some effects that are parts of that work (in video games those would be graphic and sound elements) can be protected “together with the entire work” in the context

122 Ibid, para 43-46.
123 See p. 47 of Case C-419/13 Art & Allposters International BV v Stichting Pictoright [2015] (ECJ): „That interpretation is supported by the principal objective of Directive 2001/29 which, according to recitals 9 and 10 of that directive, is to establish a high level of protection of, inter alia, authors, allowing them to obtain an appropriate reward for the use of their works”.
124 A good example in that matter is the case of C-355/12 Nintendo Co. Ltd. V. PC Box Srl [2014] (ECJ), where the Court of Justice clearly stated that a videogame may constitute a „complex matter”, following with the interpretation that it could comprise not only a computer program protected by the Software Directive but some parts of it could fall within the protection of Information Society Directive.
126 C-355/12 Nintendo Co. Ltd. V. PC Box Srl [2014] (ECJ), p. 21.
of protection established in Information Society Directive.\textsuperscript{128} It is worth mentioning that the explanation provided above may also find its place in the matter of e-books “with enhanced functionality such as embedded audio-visual media and similar developments in digital content”.\textsuperscript{129}

Nevertheless, the abovementioned matter still provides with many interpretations and leads to legal uncertainty. In principle, the Information Society Directive clearly states in Recital 19 that appears to oppose the applicability of the approach presented in \textit{UsedSoft} decision in the case of other forms of copyrighted works. The Court has basically ruled that the approach concluded in \textit{UsedSoft} will not apply to online downloads within the protection of Information Society Directive.

The reasoning presented above may lead to a conclusion that the Court of Justice of European Union with regard to \textit{Allposters vs. Stichting} case was trying to avoid the matter of digital exhaustion providing with the specific connection of exhaustion to tangible objects.\textsuperscript{130} Moreover, as the decision is strictly connected to physical products without mentioning the matter of digital works, in consequence it confirms that there is no assertion whether the exhaustion doctrine applies for digital works or not.

Consequently, it might be stated that even though there is still some uncertainties and confusions regarding the digital exhaustion of content different than computer programs, the final decision is yet to come and the room for digital exhaustion is still maintained.

\textbf{6.2.1 Download button: do we own digital files? Licensing in the digital age}

The swap meet for digital files is no longer an extraordinary and impossible idea. In the age of Internet, where our lives depend on technology devices, the Internet can be perceived as something additional that will make our lives simpler. However, the smooth functionality of the it’s market cannot be pledged if Member States apply different approaches and regimes with regard to exhaustion, as it was stated before.

The rules on copyright exhaustion remain divergent in United States and European Union and vary from each other. Accordingly, “they differ in both jurisdictions, differ between software and other works, differ depending on transaction terms, differ as to whether

\begin{itemize}
\item \textsuperscript{128} Case C-5/08 \textit{Infopaq International} [2009] (ECJ), p. 35.
\item \textsuperscript{129} Masa Galic; "The CJEU Allposters Case: Beginning of the End of Digital exhaustion", European Intellectual Property Review, (2015), 37(6), 392; Available at SSRN: http://ssrn.com/abstract=2771092
\item \textsuperscript{130} Determann, Lothar, "Digital Exhaustion: New Law from the Old World", 33 Berkley Technology Law Journal, 177 (2018), 212
\end{itemize}
reproduction is permissible to sell copies separate from storage media, and differ as to whether exhaustion applies internationally”.

In principle, United States and German Courts do not allow to transfer the copy of a digital good without the storage media. As stated above, that would infringe the copyright owner’s reproduction right. After all, it is not certain whether the user and future acquire do know what he buys when the “buy now” button is pressed or not. All factors such as divergence of courts decisions or granted confusion on market place only confirm the complexity of topic.

Nonetheless, nothing can be taken for granted. The digital first sale doctrine may be found in the middle of its infancy. Accordingly, Internet is born every single day and brings new solutions. But the interesting problem arises once the aforementioned “buy now” button is pressed and the purchaser receives the possibility of listening the track on his device. However, the question that arises is if the same user owns or does not own the track after the fee is paid.

In order to continue their creative and artistic work, authors and performers have to receive an appropriate remuneration for the use of their work, as well as producers in order to be able to finance this work. The purpose of affording copyright holders their exclusive rights is to help to ensure the maintenance and development of creativity in the interests of authors, performers, consumers to name a few.

Most of on-line platforms, such as Spotify, has the option of a subscription, so the user may have unlimited access to the specific digital content. The legal contract, a licence agreement, which is established between the user and the provider of streaming music service, administer also payments, which are: the subscription fee or singular fee for a specific content. Therefore, receiving royalties (gained for example from these fees) protects rightholder’s intellectual property rights. A company such as Spotify, due to a large volume of the streaming is able to obtain over 70 million dollars from its users and almost 30 million

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131 Ibid, 177.
133 Determann, Lothar, „Digital Exhaustion: New Law from the Old World“, 33 Berkley Technology Law Journal, 177 (2018), 182: „German courts held that downloads of digital goods other than computer programs do not exhaust distribution rights; consumers cannot own digital goods they download; and, even if they did, they cannot temporarily reproduce tchem to sell a copy without the storage medium“.
135 Recital 10 of InfoSoc Directive.
dollars in advertising to pay a proper remuneration to artists.\textsuperscript{137} Licensing agreements prohibit licensees from transferring digital goods such as transmitting, selling renting, redistributing to name a few. Agreement as such, also known as a “record contract” establishes certain rules which refer to the product itself, partners of that specific agreement, the territories in which the specific content will be available and how the shares of licensing will be distributed to name a few.\textsuperscript{138} Nevertheless, those conditions depend on the negotiations of the agreement.

It is worth mentioning that there is a need of initiative and substantial support, which will help online streaming services to expand. Still the closest that countries have come to the aforementioned matter are protection standards that are implemented through international treaties, such as Berne Convention. For instance, in order to secure open and transparent access to digital goods streaming services should provide with local content along with the foreign one. This would help with promoting domestic and international bases equally, as “prosumers will continue to find the content they desire, and rightholders ready to deliver that content on a global scale will reap the benefits of digital streaming revenue”.\textsuperscript{139}

Once provisions of minimum standards for copyright protection of the Convention were incorporated into TRIPS, all Member States cohere to minimum copyright protection standards in exchange for free trade among member nations.\textsuperscript{140}

The matter of licensing is worth mentioning at this point as it excludes the application of first sale doctrine of exhaustion. As stated before, the exhaustion doctrine applies to goods that have been sold; not licenced. The copyright licensing is used in order to authorize customers/users to use the copyrighted works under specific terms and conditions.

Accordingly, once a person pays a fee for using the specific platform or service provider, the process does not constitute the transfer of ownership. The user is only renting the digital music from platform, which is available by the licence agreement. In effect, an individual is being sold a licence to use the particular song or album for the private use, not


\textsuperscript{139} Braxton, Jasmine A., „Lost in Translation: The obstacles of streaming Digital Media and the future of transnational licensing”, 36 Hastings Comm. & Ent. L.J. 193 (2013), 214-216, Available at: https://repository.uchastings.edu/hastings_comm_ent_law_journal/vol36/iss1/7, [Accessed: 7.04].

\textsuperscript{140} Ibid, p. 204-205
the content itself. Consequently, this lack of ownership severely limits the rights of the user of
the specific platform but acts in favour of copyright holders.\textsuperscript{141}

There are several reasons why digital content is offered to consumers through licence
agreement. One and the most relevant to this is the possibility of enabling distributors to allow
and provide customers with more options when it comes to accessing and using the digital
file. In other words, the customer is authorized to download digital content such as music files
or e-books to multiple devices. On that terms, the consumer has unlimited access to the
specific content, which means that he can obtain the content anywhere at anytime. This kind
of service is provided by platforms, such as Netflix, Spotify or Pandora.

Netflix users have access to a whole library of movies and programs just by obtaining
a monthly fee.\textsuperscript{142} Spotify, an interactive “radio” offers a number of different licences to access
digital content which varies from each other and depends on consumer’s needs. Nonetheless,
the platform is available for everyone – a customer may choose between a free tier based on
advertising-financed stream music and the premium version of subscription, which does not
include advertisings.\textsuperscript{143}

Nevertheless, none of these providers allow to download digital contend on hard drive
of the technological device. This solution, basing on the non-transferable content from the
platform and the contractual side (in the subject of licence agreement) helps to reduce the
number of piracy and infringement on the digital goods. According to studies, territories see a
drop in illegal downloading activity when it comes to the copyrighted digital goods, once they
offer legal streaming services through which the copyright holders get royalties.\textsuperscript{144}

As the streaming services such as Spotify remain to be popular and tempt more people
every day, consumers seem to be more likely interested in fast access to the content rather
than having permanent access to digital files stored on their device, such as computer or
smartphone. Since the need of secondary market for digital content seems to fade out, there is
still a small chance that it may become a reasonable and wanted option for electronic books.
Some scholars support this opinion, by using the following argument:

\textsuperscript{141} Cobb, Kristin, “The Implications of Licensing Agreements and the First Sale Doctrine on U.S. And EU
529-530, [Accessed: 7.04].
\textsuperscript{142} Netflix Terms of Use, NETFLIX, available here: http://signup.netflix.com/TermsOfUse [Accessed: 7.04].
\textsuperscript{143} Cobb, Kristin, “The Implications of Licensing Agreements and the First Sale Doctrine on U.S. And EU
538, [Accessed: 7.04].
\textsuperscript{144} Braxton, Jasmine A., „Lost in Translation: The obstacles of streaming Digital Media and the future of
transnational licensing”, 36 Hastings Comm. & Ent. L.J. 193 (2013), 195, Available at:
https://repository.uchastings.edu/hastings_comm_ent_law_journal/vol36/iss1/7, [Accessed: 7.04].
“we may be discovering that e-books are well suited to some types of books (like genre fiction) but not well suited to other types (like nonfiction and literary fiction) and are well suited to certain reading situations (plane trips) but less well suited to others (lying on the couch at home). The e-book may turn out to be more a complement to the printed book, as audiobooks have long been, rather than an outright substitute.”

Below, the recent cases will be addressed along with presentation of findings of ECJ with respect to the construction of exhaustion doctrine in context of a resale of audiobooks and electronic books.

6.4 Vob v Stichting: public lending of electronic books

The case Vob v Stichting touches upon the interpretation of public lending rights in relation to electronic books under the Rental and Lending Directive. Even though the case is not strictly related to exhaustion of exclusive rights, yet there are some interesting indications provided by CJEU, which shall be mentioned.

The CJEU answered questions on whether the public library can lend electronic books in a way of temporary downloads under the European Union Rental Directive. In the presented case, a public library copied electronic books to a server and allowed member of that library to download a specific, wished copy directly to a personal device. It was ensured by the library that once a member downloaded a copy, that copy was available only to that specific user at any given time, in other words “one-copy-one-user” model. After the period of lending expired, the member had no longer an access to that specific copy.

The Court focused on interpretation of rental and public lending and accordingly highlighted the distinction between both of them. It was stated that the definition of the “copy” in respect of rental rights should be interpreted according to the giving disposition in

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147 Both of them are regulated under Rental and Lending Directive as exclusive rights.
WIPO Copyright Treaty.\textsuperscript{148} Pursuing to above, authors shall have exclusive right of rental in respect to the originals or copies of their works.\textsuperscript{149}

Following the court’s decision, “intangible objects and non-fixed copies, such as digital copies, are excluded from the right of rental”.\textsuperscript{150} In other words, the court held that lending of an electronic book affects the rightholder and the public correspondingly to lending a printed copy of a book.\textsuperscript{151} Moreover, a Member State can make an exception in regard to copyright holder’s exclusive right of lending under Article 6(1) of the Directive in the case that the electronic book, which is a subject of lending in a public library has “been put into circulation by a first sale or other transfer of ownership of that copy in the European Union by the holder of the right of distribution to the public or with his consent, for the purpose of Art. 4(2) of Directive 2001/29/EC”.\textsuperscript{152}

In conclusion, as EU Member State may dispose an exception to the exclusive right of lending of the right holder for public libraries, it might be understood that electronic books would accordingly fall under the same scope.\textsuperscript{153} Nevertheless, the Court did not clarify whether a copyright owner triggers exhaustion by making a specific electronic book available for download. Additionally, the question whether the consumer of a digital good owns the copy was also left without specified answer. Last but not least, the matter of a possible infringement of copyright holder’s exclusive right of reproduction in the context of digital lending was not addressed.

All in all, the aforementioned would imply that the CJEU was not specifically concerned about reproduction rights in respect to digital lending. That would be coherent to given views regarding exhaustion doctrine for downloads of software in UsedSoft v. Oracle case.\textsuperscript{154}

### 6.5 Tom Kabinet: is the reader “exhausted” with reading e-books?

The Tom Kabinet is a Dutch company, which operates as a secondary marketplace for e-books and has started the business in 2015. In order to sell used book, the seller needs to upload the electronic book onto the website along with the confirmation that the content they

\textsuperscript{148} C-174/15, \textit{Vereniging Openbare Bibliotheek v Stichting Leenrecht} [2016] (ECJ); p.33.
\textsuperscript{149} Article 7 of WIPO Copyright Treaty.
\textsuperscript{150} C-174/15, \textit{Vereniging Openbare Bibliotheek v Stichting Leenrecht} [2016] (ECJ); p.34.
\textsuperscript{151} \textit{Ibid}, p. 51, p.53, p.74.
\textsuperscript{152} \textit{Ibid}.
\textsuperscript{154} \textit{Ibid}. 
upload was legally obtained. What is more, the whole process is successful once the seller agrees to delete his personal copy from hard drive of their electronic device. All copies are marketed with a digital watermark. For each “transferred” e-book, Tom Kabinet provide the seller with credits by using which he can purchase another electronic book from website. The amount of credits are determined and verified by Tom Kabinet.\textsuperscript{155}

Dutch publishers represented by the Dutch Association of Publishers, filed for a preliminary injunction suit to urgently cease the Tom Kabinet’s dealings and close the website for copyright infringement. Accordingly, they claimed that sale of used electronic books constitute the copyright infringement as there is no consent from the copyright holders. What is more, they argued that e-books are not resalable as they are considered as intangible goods. Contradictory, Tom Kabinet argued that the legality of their actions was based on the ruling in the case of \textit{UsedSoft}. They hold that the decision of Court of Justice of European Union, which is in favour of resale for software programs, extends to digital content such as e-books.\textsuperscript{156}

Consequently, in the preliminary ruling, the Amsterdam District Court did not grant the injunction to close the infringing website arguing its decision by uncertainty of applicability of exhaustion rule in digital realm. It was unsettled whether the resale of electronic books is allowed under European Copyright law or not.\textsuperscript{157}

Nonetheless, in the preliminary appeal, the Appellate Court of Amsterdam followed the ruling of District Court adding that the company does not essentially prevent from sale of illegal content. Therefore, the court ordered Tom Kabinet to stop their actions until they apply more effective method to prevent the uploading of illegally acquired works.\textsuperscript{158}

The court stated that it was uncertain whether the decision in \textit{UsedSoft} case might extend and be applicable to other digital contents, such as e-books. The owner of the electronic book acquires the right to use the specific copy for an unlimited period of time for his personal use, preceded by payment, which represents the economic value of the copy of the work. The procedure and outcome seemed to be very much the same as in \textit{UsedSoft} case. However, it was pointed out by the court that according to recitals 28 and 29 of Information Society Directive, the exhaustion of distribution right is only applicable in respect to tangible

\textsuperscript{155} See: https://www.tomkabinet.nl/en/
\textsuperscript{158} Ibid.
goods. What is more, it was stated that the special provision provided by Article 5(1) of the Software Directive does not apply to copyright. Nevertheless, the aforementioned arguments did not impress the court to cease the resale of electronic books by Tom Kabinet and the practice of the company may be allowed under the European Union Law. As the CJEU considered the economic approach in UsedSoft case, by pointing out the fact that the rightholder received the proper remuneration at the first sale it has ruled that Tom Kabinet couldn’t be ordered to close the online marketplace in summary proceedings. Additionally, the court added that the aforementioned matter should be taken under a deeper consideration in a separate lawsuit, whereby the court could refer questions to Court of Justice of European Union with respect to the applicability of the decision of UsedSoft to electronic books.

6.4.1. The Court of The Hague

After the preliminary procedure, the action has been taken into the Court of The Hague, where publishers presented their claims against Tom Kabinet business model. Firstly, it was claimed by them that providing books, which further are available for download, infringes one of the exclusive rights of copyright holder – the right of communication to the public. Secondly, they argued that coping a book to servers, as it done by Tom Kabinet, constitutes an unauthorized reproduction of copyrighted work. After all, once the e-book has been sold, the copy of work remains and is stored on servers. Thirdly, the publishers stated that company’s practice initiate the infringement of their right of distribution of copyrighted work.

The Court of The Hague did not agree to the first claim as if the practice infringes the right of communication to the public. According to foundlings of court, there is no public because the only person who has access to the bought book is the acquirer. With respect to the second argument, the court considered the presented reasoning and stated that even if the right

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159 Article 5(1) is a special provision which allows the temporary or permanent reproduction of a computer program: „in the absence of specific contractual provisions, the acts referred to in points (a) and (b) of Article 4(1) shall not require authorization by the rightholder where they are necessary for the use of the computer program by the lawful acquirer in accordance with its intended purpose, including for error correction“.


161 Ibid.

of distribution is exhausted, Tom Kabinet has no right to store a copy of the work on its servers after the lawful resale of it. Pursuing to the third matter, the court had doubts in presenting the opinion.

It was held that the Computer Programs Directive is not applicable to electronic books, basing on the ruling in UsedSoft case and admitting that the previous sale of the work took place. However, the court deemed it unclear whether Tom Kabinet could invoke the digital exhaustion of right of distribution in relation to their business. As long as the uncertainty regarding the exhaustion rule after the first sale for digital content (which is not a computer program) maintains, the Court decided to refer three questions to the Court of Justice of European Union in order to receive a clear clarification of the contested issue and direct answer to matter in question.  

To sum up, the Court of The Hague gave thoughts to the matter that the InfoSoc Directive does not explicitly provide with the answer whether intangible copies are also a subject to exhaustion of distribution right. However, the matter of digital resale and the following exhaustion after first sale for digital content is still not concluded.

The Court of Justice of European Union is called to clarify the matter and will have its final say to whether the digital exhaustion may apply to different digital content than software programs and accordingly would fall under the Information Society Directive.

6.4.2 Are you already exhausted? Four questions to CJEU

As stated above, the Court of The Hague has decided to refer three questions to the Court of Justice of European Union regarding found uncertainties. They are as follows:

1. “Is Article 4(1) of the Copyright Directive to be construed as meaning that “any form of distribution to the public by sale or otherwise of the original of their works or copies thereof” as referred to therein includes making available remotely by downloading, for use for an unlimited period, e-books (being digital copies of books protected by copyright) at a price by means of which the copyright holder receives remuneration equivalent to the economic value of the work belonging to him?”  

163 Ibid.
164 Case C-263/18; Request for preliminary ruling from the Rechtbank Den Haag (Netherlands) lodged on 16 April 2018 – Nederlands Uitgeversverbond, Groep Algemene Uitgevers v Tom Kabinet Internet BV.
2. “If question 1 is to be in the affirmative, is the distribution right with regard to the original or copies of a work as referred to in Article 4(2) of The Copyright Directive exhausted in the Union, when the first sale or other transfer of that material, which includes making available remotely by downloading, for use for an unlimited period, e-books (being digital copies of books protected by copyright) at a price by means of which the copyright holder receives remuneration equivalent to the economic value of the work belonging to him, takes place in the Union through the rightholder or with his consent?”\textsuperscript{165}

3. “Is Article 2 of the Copyright Directive to be construed as meaning that a transfer between successive acquires of a lawfully acquired copy in respect of which the distribution right has been exhausted, constitutes consent to the acts of reproduction referred to therein, in so far as those acts of reproduction are necessary for the lawful use of that copy and, if so, which conditions apply?”\textsuperscript{166}

4. “Is Article 5 of the Copyright Directive to be construed as meaning that the copyright holder may no longer oppose the acts of reproduction necessary for a transfer between successive acquires of the lawfully acquired copy in respect of which the distribution right has been exhausted and, if so, which conditions apply?”\textsuperscript{167}

The first questions, which have been referred to the court of Justice of European Union, refer to the interpretation of distribution right under Article 4(1) of Information Society Directive. The questions focus on legal classification of the sale of electronic books upholding the reasoning performed in \textit{UsedSoft} case, specifically that the download of a digital content was proceeded along with the consent from rightholder, where the specific price was paid as an equivalent to the economic value of the work and finally that the use of the content was granted for an unlimited period of time. In other words the referring court asked whether uploading a content, which is designated for subsequent downloading by another user, constitutes a distribution.

The second question depends on the findings of the Court regarding the possible distribution of the sale of content in the scenario at issue. If the first question would be in affirmative, the referring court asked whether that kind of distribution of content would lead to exhaustion of right for the electronic books.

\textsuperscript{165} Ibid.
\textsuperscript{166} Ibid.
\textsuperscript{167} Ibid.
Third one is related to the right of reproduction and its relationship to digital exhaustion. Accordingly, the question is whether - in terms of a possible digital exhaustion for the circumstances presented above – the transfer of lawfully acquired content (to which the distribution right has expired) between seller and buyer constitutes the consent to acts of reproduction, if such acts are required and are necessary for the lawful use of copy.

The fourth and final question addresses the same matter: right of reproduction combined with the doctrine of exhaustion, from the perspective of Article 5 of Information Society Directive. It expressly asks whether the provision should be interpreted on the terms that the copyright holder cannot object to the acts of reproduction, which is necessary for the digital resale of those exhausted copies of works that are a subject at issue.

The case of Tom Kabinet is not the first one that occupied the Court of Justice of European Union in relation to electronic books. On 10 November 2016 in the case C-174/15, it was declared by the CJEU with respect to rental of electronic books that rules for lending them are the same as for the lending of physical embodiment and provided that the lending conditions are corresponding to those of tangible books.

The ruling in Tom Kabinet case is highly significant for the fate of e-books and its secondary market. It will determine whether the right of distribution and the principle of exhaustion will equally apply to sales made by downloading the content on the user’s electronic device. As long as the software exhaustion is considered as lex specialis in respect to computer programs that are protected by Software Directive, it will be interesting to see the final consideration about whether – and if so to what extend - computer programs will be different from electronic books (including the electronic form of sale for both subjects) once all doctrinal requirements established by the Court of Justice in the case of UsedSoft are met. According to the current case law and extent of possibilities to share content every day over the Internet, the flexibility on the law towards some matter, such as exhaustion principle would be welcome.

Thus it is unlikely that the court will limit the application of the exhaustion doctrine in reference to the sale of electronic books taking into consideration the high level of protection

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168 Article 2 of InfoSoc Directive: „Member States shall provide for the exclusive right to authorize or prohibit direct or indirect, temporary or permanent reproduction by any means and in any form, in whole or in part: (i) for authors of their works; (ii) for performers, of fixation of their performances; (iii) for phonogram producers, of their phonograms; (iv) for the producers of the first fixations of films, in respect of the original and copies of their films; (v) for broadcasting organizations, of fixations of their broadcasts, whether those broadcasts are transmitted by wire or over the air, including by cable or satellite“.

169 Case C-174/15 Vereniging Openbare Bibliotheeken v Stichting Leenrecht [2016] (ECJ).

Still, the decision in the matter in question is important to uniform the principle of digital exhaustion on the European Union level. It is expected to give the definitive response in respect to exhaustion principle answering the issue whether the digital exhaustion is admissible to a different digital content then software programs. The final decision is within reach and will end the endless discussion.

\section*{7. RECONSIDERATION OF THE FIRST SALE DOCTRINE}

\subsection*{7.1. E-book secondary market: patented idea of Amazon}

One of the largest online retailers – Amazon - has obtained the patent that will allow them to do the resale of “used” digital contents, such as music, videos and electronic books. According to the patent description, the marketplace would work uniformly and comparably to its internal lending procedure.\footnote{United States Patent, Patent No.: US 8,364,595 B1; Amazon Technologies, INC available here: https://patentimages.storage.googleapis.com/09/28/25/54ba132d0de701/US8364595.pdf [Accessed: 15.04].}

Currently, the lending process works as follows: once the specific publisher grants the rights in favour of Amazon, the user who is interested in “buying” a book will have an option to literally loan the access rights to that digital content. Consequently, the content would be available to family and friends who also are users of specific personalized data store. What is more, if one of those people is making a use of the file, the very same file is not available to others including the original owner. However, the file was still on devices even though the content would not be available for all entitled people excluding a particular user, for whom the access rights to the electronic book have been transferred temporarily.\footnote{Instructions for using Kindle “Lend and Borrow Kindle” available here: https://www.amazon.com/gp/help/customer/display.html?nodeId=200549320, [Accessed: 15.04].}

In this centralized system, the transfer of the particular content between storage devices that are associated with the same user account is processed through Internet and there is no “transfer” in a technical sense.\footnote{Oprysk, Lilia, Prof. Dr. Matulevicius, Raimundas, Prof. Dr. Kelli, Aleksei, “Development of a Secondary Market for E-books: The Case of Amazon”, 8 (2017) JIPITEC 128 p.1; available here: https://www.jipitec.eu/issues/jipitec-8-2-2017/4562 [Accessed: 15.04].} The content is neither copied nor transferred – it is synchronised to a
different device of the same owner. Moreover, the same content is removed from other devices by delisting the particular electronic book or by untying the device from an account. Accordingly, there is no chance to extract the electronic book to a different portable device such as USB stick with the aim of importing it somewhere else.174

The digital secondary market presented by Amazon would bring a lot of facilities for the potential user. Accordingly, instead of loaning the access rights of a digital content, which are acquired by paying a fee, the original owner of the digital content would be able to permanently transfer those rights to that specific file to another person. Once the transaction was fulfilled, the file would not be available for the original owner – even if the file were downloaded on his device, he would not be able to access the content. Accordingly, if the content was possibly still saved on the device and remained on it until owner’s decision of deleting it, the access to the file would be still unavailable.175

However, as long as the proposed market seems to be a natural consequence of digitalizing process of the society, there are still certain organizational, legal and technological issues and challenges that arise during reconsidering the Digital Single Market of electronic books and secondary market thereof. During the analysis of possible scenarios for currently doubtful secondary market for digital content it is unavoidable to consider all challenges collectively.

Firstly, the digital content can be reproduced. There are no limits that would strictly provide with numbers of possible reproductions of the content. Undoubtedly, the creation of copies lies within the concept of Internet and network transmissions.

Secondly, it is not a subject of degradation. For instance, a bought copy of electronic book will remain exactly the same even after exploiting it number of times as the quality of the digital copy does not deteriorate over time thanks to the specific technical protection measures. What is more, the digital copy is normally perceived as a file, which can be consummated by end-user through specific technological device. This makes a distinction of the intangible medium from tangible one.

Last but not least, there is no certainty whether the Amazon’s idea of secondary marketplace, which allows loaning or reselling of digital goods, will get the permission from a right holder of a particular artistic work. One of those requirements listed above, which constitute the exhaustion is a transfer of ownership. As long as most of intangible goods

174 Ibid.
available on the website are being licenced rather than being sold, the reasoning in aforementioned UsedSoft case concludes that a user licence agreement was constructed and designed in order to make a specific copy of the work permanently available and useable for the customer in return for payment which remunerate the vendor. In other words, such a transaction involved the transfer of the right of ownership over the specific copy of work.\textsuperscript{176}

By following the logic that was applied in UsedSoft case one may presume that purchasing electronic book from Amazon Store may qualify as transfer of ownership of the specific copy.

Another interesting matter of concern is the applicability of territoriality of copyright and exhaustion principle. The Information Society Directive provide with the regional EEA-wide exhaustion which states that the distribution right can only be exhausted in respect of copies which are put into circulation with the consent of the right holder within the European Economic Area. Therefore, it is needed to monitor the initial transaction of sale whether it was initiated within EEA or not to be able to determine if the specific copy may be put on a secondary market. A solution of watermarking technology that was practiced by Tom Kabinet seems to be a good choice. Even though it does not prevent directly from copying the content, it marks it and passes information on with each single copy.

Nevertheless the aforementioned matter demands a measured consideration. Following the argumentation of some scholars:

\textit{“From the legal perspective it might be worth to evaluate the necessity of maintaining regional exhaustion for intangible goods such as e-books. Given the absence of an agreement on justifiability of maintaining a regional exhaustion, it might be insightful to study the impact of international exhaustion on a potential secondary market of intangible copies. There may be a case for promoting greater cultural diversity within the EEA by allowing the import of e-books purchased outside its borders, which are otherwise not accessible on the EU market.”}\textsuperscript{177}

A secondary market for digital content is the closest equivalent to those that already exist and provide the consumer with tangible medias, such as printed books or CDs. However, as indicated above, facilitating a digital secondary market is a complex and challenging process due to exhaustion provisions and current consumer’s preferences.


\textsuperscript{177} Ibid.
7.2 Is there room for digital exhaustion?

7.2.1 A whole new world

As time goes technology and society evolve. The technological development has influenced preferences and daily habits of the society. Constantly, new technologies and markets are being developed and following their progression – they are changing everything on their way, exclusively not only customers expectations and practices but also law applicability.

As it was stated above, consumers seem not to be interested in possessing the specific digital content in the way they would the physical embodiment of the same file. Nowadays, instead of building their collection in the manner of owning it, they desire the access to the digital content, called on-demand. The perfection of the service would most likely be the possibility to have the content available on several different devices. Consequently, they may choose not only the specific time and place to be able to consume it, but also they may choose the perfect device for that particular period of time. Moreover, they rely on the possibility to create a backup version in the cloud and to copy the library to upgraded devices in order to share these music files with friends or family members. The number of reproduction or copies of the specific file would not matter.

However, that kind of freedom is neither conferred by the first sale doctrine nor by any other provisions in copyright laws. Nevertheless, looking through some of the biggest suppliers of digital goods, one may notice that such rights are contractually granted, such as aforementioned Spotify or Apple iTunes. Terms of Use of these platforms and other digital content providers do grant popular and daily needed rights to consumers. Though, such forms of use would infringe the rights of right holder under United States of America or European Union laws in the manner of exclusive reproduction right. Those difficulties that arise are strictly connected to the progress that all of us are yet to experience. Those provisions that provide us with exclusion of the distribution of intangible copies (for example from the scope

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of Article 4(2) of the Information Society Directive) were adopted at the time when specific implications of digital markets were far away from being considered.\textsuperscript{179}

As long as the opportunity of granting the resale right in contracts is in question, one may definitely agree on that the situation would not be in favour of copyright owners. Pursuing to above, “\textit{contractual reproduction rights paired with mandatory resale rights could seriously amplify the adverse impact on copyright owners’ commercialization opportunities, as consumers hold more copies that they can potentially resell in practice}”\textsuperscript{180}

In the manner of the subject of digital content provider, Spotify serves with a good example as one of the biggest streaming platforms, which provides their subscribers and customers with digital content.

As pointed out in the previous chapter, users of the platform have access to dozens of copyrighted contents (songs and podcasts) in return for a monthly fee. They may access it on whichever device they prefer to, including the possibility of multiple access (either tablets, computers, phones, smart watches or combination of all), using the service in online or offline mode. Once the user prefers the offline mode, he can download a specific content on his cloud storage that is strictly connected to the account and only available after logging into the account. Consequently, there is neither notion nor transfer of ownership of the specific content as the user acknowledges at the beginning of using the service that the further transfer of the content is forbidden. Nonetheless, the users of the platform have a right to create their own playlists, which are built upon favourite songs, and they may share it with friends or whomever they wish to in regard to public playlists.

Copyright holders insist that the freedom from possible secondary markets shall help them “\textit{to engage in price discrimination that could result in lower prices for individual consumers and casual users at the expense of instructional customers and professionals}”.\textsuperscript{181}

Thus, not all scholars share the same opinion as the latter one. Accordingly, they preclude that first sale does not strictly prevent the right holders from benefiting their clients. It is noteworthy that they advise those who are committed to price discrimination issue to reconsider the nature of transaction “by structuring transactions not as sales but as leases or subscriptions services”.\textsuperscript{182} It would lead to the situation when the copyright owner trades the perpetual possession of the copy in return for a payment with an outcome of being bound by

\textsuperscript{181} \textit{Ibid}.
\textsuperscript{182} \textit{Ibid}.
copyright’s exhaustion doctrine.\textsuperscript{183} Thus, one may remain uncertain whether the price discrimination issue remains beneficial or not for both parties in a different ways.

However, one shall remember that the purpose of the copyright law is still strictly connected to encouragement to creativeness instead of accelerating profits for copyright holders.

Comparable to Spotify’s or Netflix’s politics, all subscription platforms provide with a specific service, which allows consumers to access the content with an exception of lacking the possibility to transfer the content. However, as an example of a different system where users are not limited with time to access the aforementioned (as the matter takes place for iTunes service), they have to follow restrictions provided by end-user licence agreement. Nevertheless, \textit{“the fact that online distribution services generate a new copy upon the user’s demand, thus a reproduction, should not distract us from the applicability of the distribution right”}.\textsuperscript{184}

Last but not least, as stated above, streaming platforms seem to take over the market. By being on the top when it comes to potential access to trustable content and with the competitive prices offered by them, the business model of streaming platforms is becoming more popular these days.

Even though new ideas not always met the best outcome, the aforementioned arguments stand for the increasing popularity and growing accessibility to copyrighted works.

\subsection*{7.2.2 Balanced fight}

The application of exhaustion doctrine in a digital realm may be found as a puzzling and demanding task. As long as exhaustion might be perceived as a doctrine that advantage customers’ side, the evolution of technology and possible birth of secondary markets may somehow motivate rightholders to change their way of thinking into more innovative. The fight that serves the meaning of copyright law doctrine intends to find a balance between opposing interest of parties: proprietors and the public.

However, to accomplish the balance between both parties, it would require more strategic suggestion from legislature. Below are outlined potential solutions and approaches in the manner of digital exhaustion.

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Firstly, the most satisfactory would be to develop a technology-neutral solution so interests of all involved parties are respected and ensured with the widest possible range. Thus, this would require a high level of protection for beneficiaries and acknowledgement of property rights on copies for the end users to name a few. In the end, this difficult task would necessitate legislature to be observed as they need to keep pace with the current development of technologies, remember about fundamental rights and at the same time do not punish for new solution regarding possible innovative ideas on the market.

To determine the exhaustion doctrine based on kind of intellectual property may also be understood as a possible and interesting type of approach. Due to manner of clarification and diligence, analysis of costs and benefits of exhaustion for the specific type of intellectual property right must be fulfilled. Each form of intellectual property serves different functions and consequently those rights may not be seen as equivalents in the manner of the proper scope of each of them. As a form of exposition, trademark and patent are seen as those with a bigger economic application in comparison to copyright, which stands for encouraging and rewarding artists and creators for their expression and creativity. Every nation’s regime will have a different approach when it comes to the matter in question and it will depend on the aims and justification of that regime. The variation and its significance may indicate totally different rules for different nations. In the end, it is hard to determine whether there is a perfect answer to the question in respect to exhaustion of rights in copyright or not. As stated above, each nation should conclude which factors determine its copyright exhaustion regime, estimate their importance and try to balance them.

Last but not least, the idea of to determine the exhaustion rule basing on kind of good might be seen as the most particular one. As to define the policy of exhaustion in each nation, policymakers may consider not only determining it basing on the kind, but also subdividing this consideration into more complex structure, which is a specific kind of good in which the intellectual property right is found. Thus, injecting this complexity to already detailed and confusing rules may be found as a big disadvantage.

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185 Ibid, 168.
186 Ibid.
187 Ibid, 224.
188 Ibid.
189 Ibid.
8. CONCLUSIONS

Once the digital goods such as file are transferred from one device to another through the specific program, it always involves making a copy of it. The material is travelling in so-called packets through the network and once it reaches the destination, which is another device, it is saved on its hard drive. This technological process in unfortunately unavoidable and will cause the violation of rights. Pursuing to above, it is hardly possible that the first sale, and what follows – the exhaustion rule would apply with regard to digital goods.

In accordance to the terms of transferring digital goods, it would be very hard to clarify whether that kind of transaction would have fallen under the scope of licence or sale.

Nevertheless, the crucial role of secondary market these days is worth mentioning under presented circumstances. It is not only cheaper in comparison to the initial sale, but also plays an essential role in preserving culture. It contributes with an additional opportunity of purchasing and selling copyrighted goods and helps with expanding the business model. What is more, the free alienation of property is an approach that should come along the first sale doctrine: one shall be able to resell their legally acquired property, as the ownership is the transferable right. However, the advancement of technology is not in favour of copyright holders and their rights and may be described as a bane.

As the development of Internet progresses it also changes the world we live in and initiates both; profits and limitations. The goal and the biggest challenge aimed by the intellectual property law is to achieve the balance between the exclusive rights of a copyright holder and the ownership interest of people who acquired a control over a copy of protected subject matter without the significance of its embodiment, in other words – the consumption of distribution right.

As a conclusion, current law on copyright and related rights should be adapted and supplemented to respond adequately to economic realities such as new forms of exploitation.\textsuperscript{190}

\textsuperscript{190} Recital 5 of InfoSoc Directive.
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