Copyright exhaustion – what’s happened since UsedSoft?

Examining the 2012 verdict, Ari Laakkonen, Alex Driver and Stuart Knight consider case law in the digital sphere and questions left unanswered by the courts.

The applicability of copyright exhaustion in the digital realm – and beyond – is a problem that has troubled the courts both in Europe and further afield. This article aims to remind readers of the consequences of the 2012 decision in UsedSoft, as well as subsequent developments.

**UsedSoft**

The Court of Justice of the European Union (CJEU) considered digital copyright exhaustion in *UsedSoft GmbH v Oracle International* (Case C-128/11). This case considered whether downloading a copy of a computer program exhausts the right of distribution of that copy under article 4(2) of Directive 2009/24 (the Software Directive). It found that “the first sale in the 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, with the exception of the right to control further rental of the program or a copy thereof.” (Emphasis added).

In determining whether the distribution right was exhausted, the court had to determine whether downloading a copy of a computer program that is governed by a user licence agreement may be regarded as a first sale.

The CJEU found that it makes no difference whether a copy of a computer program is obtained by means of a download from a website (in an intangible form) or by means of a material medium (in a tangible form such as a DVD), known as offline-online equivalence. Accordingly, a sale must encompass all forms of product marketing, whether tangible or intangible, characterised by the grant of a right to use a copy of a computer program, for an unlimited period in return for payment of a fee.

Digital copyright exhaustion of the distribution right was therefore founded for software under article 4(2) of the Software Directive, with the caveat that an original acquirer who resells a tangible or intangible copy of a computer program may only do so on the condition that he makes his own copy unusable. The court also found that the reproduction right would not, in the context of this case, be infringed during the resale of a computer program, placing particular reliance on the exception in Article 5(1) of the Software Directive. This directive only applies to computer software and with much content now being distributed with embedded software/functionality raises interesting questions for the future.

**Art & AllPosters**

In January 2015, the CJEU considered in *Art & AllPosters International BV v Stichting Pictoright* (Case C-419/13) the application of copyright exhaustion beyond the software field and, in particular, whether exhaustion of a distribution right applies when the medium of a copyrighted work that is being distributed has been altered. AllPosters sold posters of paintings under the consent of the copyright holders. AllPosters also sold, without the consent of the copyright holders, reproductions of paintings rendered on canvas. This was achieved through a process whereby posters of paintings were transferred to canvas.

The question referred to the CJEU was, in essence, whether the exhaustion of the distribution right set out in article 4(2) of the InfoSoc Directive, which imposes a similar exhaustion provision to that in article 4(2) of the Software Directive, applies in a situation where a reproduction of a protected work, after having been marketed in the EU with the copyright holder’s consent, has first undergone an alteration of its medium (in this case, the transfer from poster to canvas) and secondly is placed on the market in its new form.

Earlier this year the CJEU held, in a short judgment stretching to only 50 paragraphs, the answer to that question was no. The CJEU first considered whether exhaustion of the distribution right covered the tangible object on to which the work was incorporated by someone else or the author’s own artistic creation. To that end, the CJEU held that it was the original tangible medium (in this case, the poster), to which the exhaustion of the distribution right applied. This was in line with the intention of the EU legislative bodies – ie, to give authors control over the first sale of each tangible object. The CJEU then considered whether altering the form of the artwork from a poster to a canvas impacted the exhaustion of the distribution right. The CJEU held that creating canvases was an act over which the copyright holder held an exclusive right (under article 2(a) of the InfoSoc Directive), and so required his authorisation. As well as confirming that the transfer of the paintings...
from the posters to canvas constituted a new reproduction, in coming to its decision the CJEU also acknowledged that the economic value of the canvases significantly exceeded the value of the posters – the rightsholders had not consented to the sale of those higher value goods.

Despite indications in UsedSoft that software in a tangible and intangible form may be treated in the same way in respect of copyright exhaustion, AllPosters indicates that this approach does not extend beyond the software field. Even if the distribution right is exhausted upon the first sale of an intangible object (which seems unlikely, although there is ongoing case law in this respect (see the pending VOB decision below)), such exhaustion stops upon any change to the medium of the intangible object (eg, transferring a music file from a hard drive to a CD).

Wiley and ReDigi

The principle of copyright exhaustion has also attracted the attention of the US courts. Kirtsaeng v John Wiley & Sons, Inc. 568 US (2013) considered whether it was lawful for the claimant to import the defendant’s books into the US from Asia, despite the books stating that they are not to be taken into the US without permission. Overruling the lower courts, the Supreme Court of the US held that the US’ First-Sale Doctrine applies to copies of copyrighted work lawfully made abroad. A primary factor that led to this decision was the fact that the US’ First-Sale Doctrine does not contain a geographical limitation. This can be contrasted with the principle of copyright exhaustion found in both the InfoSoc and Software Directives, both of which confine the First-Sale Doctrine to the European Community.

Around the same time, the US District Court of New York considered the resale of digital music in Capitol Records LLC v ReDigi Inc, No. 12 Civ. 95 (RJS). Section 109(a) of the US Copyright Act contains similar provisions concerning the First-Sale Doctrine, which allows an owner to resell or otherwise dispose of a copy of a work.

The question considered in ReDigi was whether the doctrine extended to intangible objects, in this case digital music files. The court held that the first-sale defence is limited to tangible items like CDs, or the sale of a computer on which a downloaded music file is contained in the memory, and so an extension of the First-Sale Doctrine to the distribution of digital works was rejected.

The decisions in ReDigi and AllPosters are not inconsistent with the CJEU’s decision in UsedSoft, when one considers the fact that UsedSoft was decided under a directive that governs a specific subject matter, that is software. When one considers first the reliance the CJEU placed in UsedSoft on article 5(1) of the Software Directive, an exception that cannot be found in the InfoSoc Directive, and secondly recital 28 of the InfoSoc Directive, which appears to limit exhaustion of the distribution right to tangible articles, copyright exhaustion in software appears to be an exception to the general rule. That is, save for software, copyright exhaustion does not extend to intangible objects.

There is therefore a trend among the courts, at least for the time being, that has limited digital copyright exhaustion to software, leaving copyright holders with greater control over other digital works that cannot be considered solely under the Software Directive (for example, digital music, movies and e-books). However, clarity may be provided soon, again by the CJEU, in the VOB case.

The pending VOB decision

The application of copyright exhaustion to the distribution of e-books has been raised in a case between Vereniging van Openbare Bibliotheken (VOB), the Dutch association of public libraries – an agency that collects lending fees and distributes to rightsholders – and Stichting Leenrecht, the Dutch public lending right office (Case C-174/15). It concerns the decision of the Dutch minister for education, culture and science, Jet Bussemaker, to prohibit libraries from lending e-books without the consent of the rightsholders.

Of particular interest is the following question that has been referred to the CJEU: whether the making available for an indefinite amount of time of a copy in digital form of digital files such as e-books would be a sale or other transfer of ownership in accordance with article 4(2) of the InfoSoc Directive. If that question is answered directly, the issue as to whether copyright exhaustion extends to digital files (ie, beyond the software field) in the EU may finally be addressed, although the decision may well be limited to the specific facts of the case. Additionally, as the application for referral to the CJEU was only lodged in April 2015, it may be some time before a decision is handed down.

Precautions

Despite UsedSoft’s potential to leave copyright holders vulnerable when attempting to control distribution of their copyrighted works, the aforementioned cases seem to have limited its effects to software. However, uncertainty in this developing area of law remains, particularly until the pending CJEU decision in VOB is handed down. Rightsholders should therefore ensure that the distribution rights contained in licences are certain, whether by means of express contractual provisions or otherwise. In particular, the mediums on which a work may be distributed (if any) should be specifically addressed. This will at least give the parties themselves certainty about the scope of the rights under licence until further judicial guidance has been provided.

Footnotes

1. Article 5(1) of the Software Directive: “In the absence of specific contractual provisions, the [reproduction] and [the translation, adaption, arrangement and any other alteration of a computer program] shall not require authorisation by the rightholder where they are necessary for the use of a computer program by the lawful acquirer in accordance with its intended purpose, including for error correction.” Where the copyright owner places contractual restrictions prohibiting resale, it would be interesting to consider if a resale is a use for an “intended purpose.”

2. Article 4(2) of the 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.”

3. See, for example, recital 28 of the InfoSoc Directive: “Copyright protection under this Directive includes the exclusive right to control distribution of the work incorporated in a tangible article. The first sale in the Community of the original of a work or copies thereof by the rightholder or with his consent exhausts the right to control resale of that object in the Community.”

4. 17 U.S.C. §109(a): “the owner of a particular copy or phonorecord lawfully made under this title . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord”.

Authors

Ari Laakkonen (top left) is a partner and Alex Driver (top right) and Stuart Knight (bottom left) are associates at Powell Gilbert.