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DIGITAL EXHAUSTION IN THE EUROPEAN UNION

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ABSTRACT

In the past, copyrighted works were distributed exclusively through physical means, while copyright law developed to bestow copyright holder a privilege to decide when and under what circumstances a work should be put into circulation. The first sale doctrine, however, limited that ability in so far as, once a product is sold, copyright owners can no longer control the flow of that particular product, benefitting consumers and society in several ways. Today, as distribution is increasingly shifting into digital, the application of the first sale doctrine is challenged. This work provides for an analysis of the first sale doctrine under EU law and the ECJ case law in matters of digital exhaustion. It is shown that many of the benefits of first sale stem from traditional understandings of what means to own a physical copy and when it comes to the digital environment, the first sale doctrine seems to be undermined, and so do its benefits. It is argued that there is still some room for exhaustion, despite the lack of clarity of the wording of the InfoSoc Directive and Software Directive and the absence from the ECJ to provide for a final interpretation. Further to the analysis, it is shown that the promotion of a right to access and a right to transfer digital copies is still possible, even though they may not be the right answer to the issue of exhaustion in a digital economy by virtue of how market has developed and consumers response to it.

Key-words: digital exhaustion, first sale doctrine, exhaustion theory, exhaustion doctrine.
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“Most people have (with the help of conventions) turned their solutions toward what is easy and toward the easiest side of the easy; but it is clear that we must trust in what is difficult (…). We know little, but that we must trust in what is difficult is a certainty that will never abandon us (…); that something is difficult must be one more reason for us to do it.” (Rainer Maria Rilke)
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**ABBREVIATIONS**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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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>ECJ or CJEU</td>
<td>European Court of Justice</td>
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<td>EU</td>
<td>European Union</td>
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<td>EULA</td>
<td>End user licence agreement</td>
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<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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<tr>
<td>US</td>
<td>United States of America</td>
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<tr>
<td>WCT</td>
<td>WIPO Copyright Treaty [2002]</td>
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<td>WIPO</td>
<td>Word Intellectual Property Organization</td>
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1. INTRODUCTION

1.1 Background

In the last few decades, society has witnessed a major shift in the way we consume copyrighted content, from physical or printed media to digital means. Books have turned into e-books on Amazon’s Kindle, vinyl albums have been replaced by playlists on Spotify, and movies on DVDs are now streamed online through Netflix. Together, Spotify and Apple Music, streaming music service providers, bring together more than 120M subscription users worldwide.¹ Netflix’s DVD rental business has dropped user subscriptions from 16M in 2010 to 3.4M in 2018, while its movie streaming services has leaped from 15M to almost 120M in the same period.² A few years ago, e-books overtook the sale of hardcover books by Amazon,³ one of the world’s largest retailers.⁴ Although the sale of hardcover books has been increasing recently, it is undeniably that digital works arrived to stay.⁵

Before the booming of the Internet and digital services, the primary way of exploitation of copyrighted works was by means of physical distribution. It is no accident then that distribution right is a fundamental exclusive privilege bestowed by copyright law in the EU, along with reproduction right.⁶ By relying on such rights, copyright owners are entitled to prevent others, without their authorization, to sell and copy protected works. A limitation to distribution rights is nevertheless central for ensuring certain benefits for those who possess physical works and for society in general. The first sale doctrine, enshrined in EU law by Articles 4 of the InfoSoc Directive and 4 of the Software Directive, sets forth that once the

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copy or the original of a work is put into the market by the copyright owner or with his authorization, his rights over that particular (sold) work are exhausted and he can no longer control the circulation of it. When buying a copy of J.D. Salinger’s classic book *The Catcher in the Rye* at a bookstore in downtown London, the purchaser is allowed to do almost everything with that copy. She can access and read it whenever she wants. Although unlikely, she can destroy it if she happens not to like the content. And she can lend it or give it away to a friend, or resell it for anyone if she wishes, partially recovering the money she spent at the purchase.

Consider, however, that instead of buying the book at London’s bookstore she decided to buy it at Amazon’s website for her Kindle device. She accessed Amazon’s page, found the book there and clicked on “buy now” at a price not much inferior than the hardcover copy that she saw at the bookstore. Is she entitled to the same prerogatives she would have if she had purchased the physical copy? Can she access or read it without restriction? Is she able to lend it to a friend or resell it? More generally, do digital copy owners have or should have the same rights as physical copy owners? The answer to these questions lies upon the discussion on whether or not exhaustion of distribution rights applies to digital goods.

Established at a time where digital goods were far from existence, copyright law should now accommodate to the digital environment. While some scholars believe that copyright law is flexible enough to address new technologies that increasingly and rapidly evolve, others support that those rules were created in and for a physical world – printed technology – that has been surpassed by the digital world. In analyzing EU copyright law, nothing is clear-cut in matters of digital exhaustion and there is room for divergent interpretations. From the case law of the ECJ, most commentators appoint that digital exhaustion has definitely been ruled out. The advance of technology and the development of new business models, in the light of a legal system thought mainly to physical goods, lead some to conclude that the first sale has lost strength in the digital environment and its benefits have been undermined. Regardless of whether or not the first sale doctrine should remain still, it is never too late to reconsider that theory in today’s digital world.

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8 Ibid.
1.2 Aim and research questions

The objective of this work is to discuss the first sale doctrine in the digital environment, taking EU copyright law and the ECJ case law as framework. For that purpose, this work provides for analysis of the first sale doctrine and its benefits consolidated in the physical world, in order to question whether or not they should be maintained when it comes to the sale of digital copyrighted works. These are the questions this work proposes to answer:

I. What is the first sale doctrine? What are the benefits it brings to consumers and society in general?
II. What are the challenges in the digital environment that abridge the application of the first sale for digital goods?
III. Under the EU copyright law and ECJ case law, is there any room for digital exhaustion?
IV. Would it be possible to implement a right to access and a right to transfer digital works today? In the light of new technologies and business models of today, does it still make sense to fight for these rights?

1.3 Delimitation

This thesis takes as framework (1) international conventions related to copyright and of relevance for purposes of addressing the present questions, namely the Berne Convention and the WCT, both ratified by and in force in the EU, (2) EU copyright law, namely the InfoSoc Directive and the Software Directive, and (3) ECJ case law said to be related to digital exhaustion. However, by virtue of the lack of harmonization on the topic, leading to the issuance of divergent decisions on the very same question by national courts in the EU, in some parts national decisions are taken into account. This is to demonstrate the need of the ECJ to issue a definite decision on the topic at EU level in order to avoid conflicting approaches within the EU member-states. Finally, decisions issued by courts in the US are briefly mentioned but as a matter of example only.
1.4 Method and materials

For purposes of addressing the proposed aim and questions, in this work I use as methodology (1) doctrinal legal research, (2) non-doctrinal legal research and (3) comparative legal research. The doctrinal legal research targets at primary and secondary sources of law, particularly relevant textbooks, case law, legal publications, commentaries (e.g. reports of EU Commission, judgements, etc.) and is aimed at (1) identifying the legal context related to the factual background here presented, (2) identifying sources for investigation, (3) identifying legal issues, (4) applying law to facts, (5) relating legal dispositions to the factual issues, (6) presenting results in a clear and reliable form, helping systematize and clarify the concerned law and case law. These texts help to systematize and clarify the concerned law and cases interpretation. By applying doctrinal legal research, this study will identify and describe relevant law and case law and, after defining and tracing the legal framework, will present and justify possible interpretations arising from the examination of the concepts of law. In addition to a pure doctrinal analysis, empirical legal research is applied in order to demonstrate how the application of copyright law affect society under economic (e.g. by reducing transaction costs) and non-economic perspectives (e.g. by fostering innovation and access to information), as well as to present how the development of technology and business models may reduce or exclude benefits enshrined by copyright law, affecting legal decision processes. This is because “socio-legal research broadens legal discourse in terms of its theoretical and conceptual framework which guides the direction of the study, and specific research methodologies are able to generate empirical evidence to answer research questions.” To a much lesser degree, comparative legal research is done by analyzing articles of international law and national law and how they relate to or are applied in relation to EU law.

The research materials are legal sources and non-legal sources. The primary legal sources include but are not limited to international law diplomas, regional legislation and national law. The secondary legal sources include but are not limited doctrine, books, law journal publication, legal articles, official opinions and official publications. Non-legal sources are also used in this work for purposes of presentation of relevant data and up to date

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10 Ibid.
11 Ibid, 5.
information on the topic. The non-legal sources include but are not limited to public consultation, news publications and international reports.

1.5 Structure

This work is divided into seven parts. The first provides for an introduction on the topic, with a brief background, aim and research questions, delimitation and method and materials. The second goes into the definition and reach of the first sale doctrine in the EU taking into account EU copyright law and relevant literature. Because the principle of exhaustion is squarely related to traditional understandings on physical property ownership, some comments on that are also made on the second part, which is finished by showing four of the first sale benefits for consumers and society in general. The third part highlights how the advent of the Internet and new technologies led to what some commentators call “the marginalization” of the first sale: the loss or impairment of the first sale benefits in the digital environment. The fourth and fifth parts deepen the examination into the wording of relevant dispositions from the InfoSoc Directive and Software Directive related to exhaustion, in order to check whether or not they encompass digital exhaustion. Such examination is followed by the interpretation given by the ECJ in relevant cases. The sixth part instigates reflection on the principle of exhaustion in the digital environment, first, taking as framework a right to access and a right to transfer digital copies and, after, questioning whether or not it makes sense to support these rights in the light of new technologies and business models. The seventh and final part is a brief conclusion.
2. THE DOCTRINE IN THE PHYSICAL WORLD

2.1 The principle of exhaustion in copyright law in the EU

Copyright law plays an important role in terms of creating a legal system that fosters creation of new works and innovation, ensures protection of these creations and guarantees economic exploitation of them by rights owners. The copyright legal system is a reflection of a dialogue between copyright owners interests, on the one hand, and public interest, on the other hand. Copyright law is aimed at equalizing the protection to intellectual property rights and public interest (including e.g. freedom of expression). This goal is made effective by providing exceptions and limitations to the rights conferred to copyright owners. The exhaustion of distribution rights – or the first sale doctrine – is a theory underlying one of those limitations.

Under a historic perspective, copyright owners have not been granted absolute and unrestrained rights over the results of their creation. Indeed, copyright law provides for certain exclusive rights to copyright owners (economic and non-economic rights) and so it does in relation to those who own copies of copyrighted works in order to comply with public interest towards dissemination of and access to intellectual works. At the EU community level, copyright law ensures the following exclusive rights to copyright owners: 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. For the purpose of this work, focus is given to the right of distribution.

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13 Ibid., Recital 3.
14 In the US, the exhaustion of right principle is mostly referred to as the first sale doctrine (Kilpatrick, Bruce, Pierre Kobel, and Pranvera Kellezi (eds.), Compatibility of Transactional Resolutions of Antitrust Proceedings with due Process and Fundamental Rights & Online Exhaustion of IP Rights. [Cham], Switzerland: Springer, 2016, 469). However, for some scholars the first sale doctrine is part of a broader principle of exhaustion of copyright. (Perzanowski, Aaron, and Jason Schultz, 'Digital Exhaustion' 58(4) UCLA Law Review (04/01/2011), 908).
15 "Copyright owners, however, have never been entitled to control all uses of their works. Instead, Congress has accorded copyright owners some exclusive rights, and reserved other rights to the general public." (Litman, Jessica. "Revising Copyright Law for the Information Age." Oregon Law Review 75, no. 1 (03/22/1996), 19)
16 Within the EU scope, the exhaustion principle in the current structure emerged from the European Community legislation, followed by its implementation by national laws of the Member States. See Kilpatrick, Kobel, and Kellezi, Compatibility of Transactional Resolutions of Antitrust Proceedings with due Process and Fundamental Rights & Online Exhaustion of IP Rights, 460.
18 Ibid., Article 3.
19 Ibid., Article 4.
Under EU copyright law, particularly the InfoSoc Directive and the Software Directive, authors are granted the exclusive prerogative of authorizing or prohibiting “any form of distribution to the public by sale or otherwise” of the original or copies of their works.\(^{20}\) According to such disposition, copyright owners have the full right to control the sale of their works on the EU market. They are able to centralize distribution and choose official distribution channels.\(^{21}\)

However, the right of distribution is not unlimited. Distribution rights shall be exhausted after the first sale or “other transfer of ownership” carried out by the copyright holder or by other party with his authorization within the Community.\(^{22}\) This is the disposition underlying the exhaustion theory in the EU.\(^{23}\) It means that, once the first sale takes place, copyright owner parts away with title in and to the sold object, whose ownership is transferred to the purchaser. This purchaser is thus entitled to use, resell or give such article away, without having to ask for permission of the right owner. That particular article might thenceforth freely circulate in the market.\(^{24}\) To put it briefly, “[o]nce 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.”\(^{25}\)

Even though the term “first sale” may – equivocally – imply that exhaustion is triggered only where a product is ‘sold’, the expression is actually far more broader and comprises any action that entails a transfer of ownership, e.g. giving a CD album to a friend as a gift. The definition of distribution encompasses any form of sale or to other “situations in which ownership of the goods was transferred,”\(^{26}\) excluding therefore acts of display,\(^{27}\) rental and public lending.\(^{28}\) By adopting the expression “to the public,” EU law “would exclude from

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21 It applies only in relation to “lawfully made” copies authorized either by the copyright holder or by a third party authorized by him, meaning that exhaustion does not trigger in case of pirated goods or goods in the market as a result of parallel import. (Liu, Joseph P. "Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership," William and Mary Law Review 42, no. 4 (04/01/2001), 1291)
23 “This is the principle of ‘exhaustion’, first recognized in the context of trade between member states, but extended by the directives into the definition of the right and thus equally applicable to transactions within member states” (Bently, Lionel, and Brad Sherman. Intellectual Property Law. 4th ed. Oxford: Oxford University Press (2014), 150-151).
26 Ibid., 149.
28 These rights are regulated by the Directive on rental right and lending right and on certain rights related to copyright in the field of intellectual property [2006] OJ 2 376 (hereinafter the “Rental and Lending Directive”).
liability the distribution of infringing copies within a small personal network, such as family network, or within a firm (including between subsidiaries).”

Since the InfoSoc Directive expressly states that exhaustion will take place only after the first sale “within the Community,” any sale or transfer or ownership that may occur outside the Community does not trigger exhaustion of distribution rights. If the sale takes place, for instance, in the US, the copyright holder remains with the exclusive right of putting that particular product sold in the US in the European market. The copyright owner is entitled to prevent third ones from importing and marketing the product (object of a sale outside the European Union) into the European Community.

It also follows that any possibility of Member States to legislate exhaustion regime (international, regional or national) is at odds with EU copyright law. The EU legislator chose regional exhaustion as regime of the exhaustion theory. In other jurisdictions outside the EU, for instance, nations may recognize national, regional or international exhaustion. In the first case, exhaustion takes place after the first sale within the national territory; in the second case, within certain jurisdictions, governed by an international treaty, as in the EU; in the last case, the sale of a copyrighted good anywhere in the world triggers exhaustion.

The rationale surrounding exhaustion of distribution rights is that at the first sale of the medium carrying the work, the copyright holder is already rewarded for his creative labor (value which is understood to be comprised by the price of the transaction). Since the rewarding of the right owner – a fact credited by copyright law principles – is once achieved, there is no reason of providing him a further right of control over that article.

Otherwise, rights owner would be rewarded not only once at the occasion of first sale, but throughout the period of protection of the work. More than that, right holders would be entitled to control the circulation of the products holding copyrighted works in the market and select buyers in the member states according to his exclusive will. Such situations are considered uninteresting under an economic perspective and by virtue of conventional understandings on physical copy ownership. They would also go frontal against the

33 This will be further addressed in Section 2.2 below.
principles of free movement of goods creation of a single and smooth market between Member States enshrined by EU law.\textsuperscript{34}

In practical terms, if no limitations were to be applied over distribution rights, copyright owners would be able to control a variety of common transactions we see and participate in our daily lives freely, from acquiring a copy of a book at a secondhand store to giving a book to a friend.\textsuperscript{35} The first sale doctrine restraints those rights in order to allow the free flow of lawfully acquired copies of copyrighted works. Without the first sale, even after paying for a copy of a book, a consumer would have to ask for the copyright owners permission to lend or give it away to a friend, or sell it to anyone she wishes.\textsuperscript{36}

There are, however, limits to the free alienation of sold copies of copyrighted works and these limits are provided by legislation in order to avoid copyright owner’s economic interest to be unfairly undermined.\textsuperscript{37} For instance, copy owners are not allowed to carry out public lending or rent of the copy as these rights are “considered as being of fundamental importance for the economic and cultural development of the Community”\textsuperscript{38} and copyright owners “necessitates an adequate income as a basis for further creative and artistic work, and the investments required particularly for the production of phonograms and films are especially high and risky.”\textsuperscript{39}

Copyright law provides therefore for limitations to exclusive rights conferred to rights holders and so it does in relation to those who possess a copy of a copyrighted work. This is because copyright law aims to strike a balance between the rights of copyrights owners and copy owners. It promotes, on the one hand, a sound environment for the protection of interests of those who are engaged at the creation of works and, on the other hand, enables access and dissemination of works, in the light of public interest.\textsuperscript{40} It embodies a policy model of incentives vs access.

The first sale doctrine underlies in two basic principles.\textsuperscript{41} The first principle is related to the differentiation between corpus mechanicum and corpus mysticum. Corpus mysticum refers to the intellectual work arising from the author’s creativity, in relation to which the

\textsuperscript{34} See Articles 34 and 35 of the TFEU. See also: Pila and Torremans, \textit{European Intellectual Property Law}, 321.
\textsuperscript{35} Perzanowski and Schultz, 'Digital Exhaustion' 58(4) UCLA Law Review (04/01/2011), 893.
\textsuperscript{36} Ibid.
\textsuperscript{37} Liu, Joseph P. "Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership." \textit{William and Mary Law Review} 42, no. 4 (04/01/2001), 1292.
\textsuperscript{38} Recital 3 of the Rental and Lending Directive.
\textsuperscript{39} Ibid., Recital 5.
\textsuperscript{40} Liu, Joseph P. "Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership." \textit{William and Mary Law Review} 42, no. 4 (04/01/2001), 1248.
\textsuperscript{41} Perzanowski, Aaron, and Jason Schultz, 'Digital Exhaustion' 58(4) UCLA Law Review (04/01/2011), 909.
author is entitled to exclusive rights that subsist after first sale.\textsuperscript{42} The \textit{corpus mysticum} has to be to be fixed somehow\textsuperscript{43} to be granted protection. \textit{Corpus mechanicum} is the tangible (or intangible, as discussed below) material onto which the work is incorporated. It is the \textit{corpus mysticum} rather than the \textit{corpus mechanicum} that enjoys copyright protection.\textsuperscript{44} After the first sale, exhaustion of rights takes place in relation to the particular medium to which the copyrighted work is incorporated and not the work itself, in relation to with the copyright holder remains with all exclusive rights bestowed by copyright law other than distribution rights.\textsuperscript{45}

The second basic principle as ground for first sale is the alienability of personal property.\textsuperscript{46} Alienation of personal property should not be restrained by copyright law, as it is at odds with freedom of movement of goods. Legal systems avoid the creation of circumstances whereby right holders are permitted to control downward streams of alienation of a specific good. In the EU, the free flow of goods is set out as principle in the TFEU as a part of efforts for the creation of a single unit market within the EEA.\textsuperscript{47}

The differentiation between the immaterial work and the copy allows the conclusion that (1) while the ownership of the first remains with rights holder, (2) the second goes with whoever acquires it and is part of that person’s private property. The owner of a copy is entitled to make use of it and, as any other private property (e.g. a land), can be transferred forward. In the light of alienability of personal property, that copy can freely circulate without interference of the copyright holder. This is the first sale doctrine in its essence.

\subsection*{2.2 Traditional notions on physical copy ownership}

The first sale doctrine’s principles are squarely related to traditional notions on physical copy ownership. The imposition of limitations on distribution rights is also based on traditional understandings surrounding what means to own a physical copy and aversion to


\footnotesize\textsuperscript{43} See Article 2 of the WIPO Copyright Treaty and Article 2 (1) of the Berne Convention.

\footnotesize\textsuperscript{44} Perzanowski, Aaron, and Jason Schultz, ‘Digital Exhaustion’ 58(4) UCLA Law Review (04/01/2011), 909.

\footnotesize\textsuperscript{45} “By contrast, it has no impact on the rights holder’s other rights, including her other rights of reproduction, communication, making available, rental, public lending, and broadcast.” (Pila and Torremans, \textit{European Intellectual Property Law}, 321)

\footnotesize\textsuperscript{46} Perzanowski, Aaron, and Jason Schultz, ‘Digital Exhaustion’ 58(4) UCLA Law Review (04/01/2011), 911.

\footnotesize\textsuperscript{47} See Article 26 of the TFEU.
controlling personal property. The exhaustion principle was tailored in a physical world – it is undisputed that it applies for physical goods. The nodal question of this study is whether or not exhaustion should extend to digital copies. Should an e-book be owned by consumers the same as a physical book is? To answer this question, it is relevant to understand beforehand what it means to own a physical property.

After buying a copy of the Beatles’s *Sgt. Pepper's Lonely Hearts Club Band* album at the nearest store, a consumer can do certain things with it according to her own will. But other things she could only lawfully perform to the extent she has the rights holder’s consent. What do consumers not own after buying a physical copy? They do not own the following rights:

i. Reproduction rights: the right of making copies. They cannot create copies and, accordingly, sell or otherwise distribute them. An act of reproduction would be made with no account to the value related to the creation of the intellectual work. The price of a copy would refer to the cost of reproduction of that copy. Accordingly, copyright owners would not be able to recover the investment in relation to the creation of the work. 48 There would be, therefore, no incentives for them to keep creating. 49

ii. Distribution rights: the right of inserting the work in the market at a time chosen by copyright owners, as discussed in Section 2.1 above. This is another exclusive right conferred to copyright owners only.

The rights above mentioned are both focused on physical goods as the primary mode of consumption. But as copyright law develops, in the light of advances in technology and new forms of consumption, the provision of further rights is needed in order to safeguard copyrighted works and encourage promotion of intellectual works. Example of these rights are public display and public performance rights; right of broadcast; right to make derivative works, etc. 50


49 It is noteworthy, however, that some copies are of little or no threat to copyright owners’ rights, such as copying small parts for private non-commercial or academic purposes, or even copying entirely for purposes of criticism. (See Liu, Joseph P. "Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership." *William and Mary Law Review* 42, no. 4 (04/01/2001), 1282).

50 Without with third parties with no relation to the copyright owners would be directly benefited from the intellectual work with no consideration to rights owners. “Copyright law originally focused only on the making and sale of copies, because those activities were, in the era of the printing press, the primary ways through which copyrighted works were initially exploited. As new ways of consuming copyrighted works, and correspondingly new market structures, arose, copyright law expanded to include these new modes of consumption. Thus, the print-based model has been expanded to encompass performance, broadcast, and other technologies and economic models.” (Ibid., 1281, 1285).
Conversely, after purchasing a physical copy of a copyrighted work, copy owners have: (1) “the exclusive right to read”\textsuperscript{51} which means the ability of reading, playing, using and accessing the work for unlimited period and without limitation of quantity; and (2) the capacity of alienation of the work.\textsuperscript{52}

The first is characterized by the fact that, once in one’s possession, copies with copyrighted works can be read, played, used, and accessed as many time as the copy owner wants. This right is an inherent part of that possession and has nothing to do with any implied licence from the copyright owner.\textsuperscript{53} The legal ground - by default – under EU copyright law is that no imposition is found in the InfoSoc Directive or Software Directive in terms of limiting e.g. the quantity of times one can use or access a copy of a copyrighted work in one’s possession. Therefore, “[t]he lack of a right to control reading, combined with the inherent attributes of the physical copy, gives rise to the copy owner's ability to read or access the copy.”\textsuperscript{54} Even though this is not an expressly mentioned right by EU law, it should be relevant at least to be borne in mind, for the present purpose, when assessing whether or not a right of access should be preserved in the digital environment.

The second is the ability to transfer ownership or possession of a copy by means of sale, (private) lend, or gift. A copy owner is able to carry out any of these acts without asking the copyright holder’s permission. This right is translated into EU copyright law as the first sale doctrine, found in both the InfoSoc Directive and Software Directive. The first sale doctrine enables copy owners to transfer the ownership or possession of the copy by restraining copyright owners’ exclusive distribution rights after the first sale.

Aside from the above-mentioned rights, copy owners (may)\textsuperscript{55} also have other “rights” such as (i) “use for the sole purpose of illustration for teaching or scientific research”;\textsuperscript{56} (ii) particular uses for people with disability;\textsuperscript{57} (iii) quotation for purposes of criticism;\textsuperscript{58} uses for purposes of parody and caricature;\textsuperscript{59} among other rights listed in Article 5 of the InfoSoc

\textsuperscript{52} Liu, Joseph P. "Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership." William and Mary Law Review 42, no. 4 (04/01/2001), 1286.
\textsuperscript{53} Ibid., 1287.
\textsuperscript{54} Ibid.
\textsuperscript{55} Article 5 of the InfoSoc Directive provides that “Member States may provide for exceptions or limitations to the rights provided for in Articles 2 and 3” in certain cases. The work ‘may’ (instead of ‘shall’) means that the European legislation leaves to national legislators’ will the possibility of adopting the exceptions to copyright owners’ exclusive rights provided for in Article 5 of the InfoSoc Directive.
\textsuperscript{56} Article 5 (3)(a) of the InfoSoc Directive.
\textsuperscript{57} Ibid., Article 5 (3)(b).
\textsuperscript{58} Ibid., Article 5 (3)(d).
\textsuperscript{59} Ibid., Article 5 (3)(k).
Directive. In fact, these “rights” are outlined as exceptions to the exclusive rights conferred to copyright holders and they may be invoked by anyone generally as they have no relation with copy ownership.

In the context of software, the owner of a computer program copy is further entitled to (1) reproduce and/or adapt the copy in her possession “where (...) necessary for the use of the computer program by the lawful acquirer in accordance with its intended purpose, including for error correction;” and (2) make “a back-up copy (...) in so far as it is necessary for that use.” There prerogatives are considered to be “indispensable to obtain the necessary information to achieve the interoperability of an independently created program with other programs.” The performance of these acts by a person with “right to use a copy (...) is legitimate and compatible with fair practice.” Therefore, they do not unfairly affect the copyright holder’s interest.

The “rights” or privileges listed above are conferred to owners of physical goods embodying a copyrighted work. The EU legislation is clear as to what a consumer can and what she cannot do after acquiring a copy e.g. of Pink Floyd’s The Wall CD. According to the above, she can access and play it as many times as she wants. She also can resell it to a friend or a secondhand store it if she happens gets tired of it. But she cannot make a copy of it on her computer and give it to a friend, nor is she allowed to play it aloud in a public square. However, if the same album is downloaded instead, does she have or should she have the same privileges or is there any particular difference between physical and digital copies that would justify restrictions? The rationale surrounding these prerogatives conferred to owners of physical copies are addressed below.

2.3 First sale doctrine benefits

The discussion on tangibility of copyrighted goods has been shaping what copy owner rights are today and what they are turning to become, particularly when it comes to the definition of those goods and what happens or should happen when a consumer acquires them.

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60 Article 5 (1) of the Software Directive.
61 Ibid., Article 5 (2).
62 Ibid., Recital 15.
63 Ibid.
64 These rights will be further addressed in Sections 5.1 and 5.2 in the analysis of UsedSoft and Ranks cases.
65 “A meticulous observation of copyright user private rights also reveals another important insight: our (mis)conceptions about tangibility and intangibility shape what user rights are and will become to a large extent.”
Why do copy owners have such privileges? Are these benefits a result of copyright policy in balancing copyright owners rights and public interest, which is worth protecting, or are they merely accidents of a market structure so that no further promotion is necessary in a digital economy?  

In defining theoretical frameworks that may support copyright law and justify the reasons why copy owners own what they own, commentators point out the challenges of such task due to lack of guidance from legal materials (e.g. legislative history) so as to allow interpretation under a copyright policy perspective. For some commentators, digital copy owners should be allowed to have access to works as many times as they want, even if access implies the reproduction of a copy e.g. in the computer’s RAM, as well as be entitled to alienate them as long as the original copy is made unavailable or excluded. They believe therefore that “copyright law should preserve in the online environment rights broadly equivalent to the ones enjoyed by owners of physical copies.”

In order to make the assessment of whether or not the first sale benefits should extend to the digital environment, it is relevant to have a look on these benefits. Many of them are indeed incidents of physical copy ownership, as some commentators claim, while others refer to broader principles of public interest in a digital democracy e.g. in terms of keeping access to intellectual works and promote innovation. Legal scholars have indicated some “normative rationales” underlying the first sale doctrine: access, preservation, privacy, and transactional clarity.

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67 Ibid., 1296-97.


A. Access

By enabling the creation of secondary markets for copyrighted works and distribution channels outside of the right holders control, the first sale benefits consumers in terms of access as the price of products tends to reduce and availability tends to grow.73 Because they are not subject to the fixation of price employed by rights holders, retailers other than those included in official distribution channels, such as second-hand stores, can market copyrighted products at a lower price.74 Yet, copyright holders are able to fix retail prices at the time of first sale, though, afterwards, they cannot control the sale at lower prices carried out by third parties. As a result, competition is also increased and might pressure right holders to apply more competitive prices, improving affordability.75 Access to information is pointed out as the more important justification for first sale.76

Consumers might find and access works not only from right holders directly (or from someone else with their authorization) but rather in various places such as bookstores, libraries, second-hand stores, digital marketplaces (such as Blocket, in Sweden), or even from a friend or acquaintance. This happens because the flow of goods is no longer centralized on copyright owners after the first sale, turning into a decentralized means of access. That is, “the ability to read a physical copy freely plays a role in ensuring some degree of distributed consumption of copyrighted works free from copyright owner control.”77 Without the first sale, a consumer would have to request the copyright holder’s authorization to give a book as gift to a friend.

Conversely, copyright owners may argue that first sale does not promote affordability as a higher price is to be applied at the initial price in order to cover subsequent loss in relation to the competition with third parties. However, the first sale itself seems to limit those negative impacts on affordability since first and subsequent buyers get the right to resell and lend the product, having the opportunity to recover at least partially the value initially spent in case they

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75 Ibid., 585.
decide to sell it afterwards.\textsuperscript{78} Also, because of the competition arising from possible resellers, copyright holders would have to reduce the initial price in order to have competitive prices in the market. Lastly, even if right holders were to fix lower prices at the initial sale, subsequent transaction costs applied over any subsequent act of alienation or lending would be unlikely to prove that the absence of first sale would reduce prices overall.\textsuperscript{79}

The theoretical view presented above "looks at copyright law as effecting a balance of incentives and access, one that should be carefully preserved, particularly against the claims of copyright holders for greater control over their works."\textsuperscript{80} However, commentators mention challenges on defining the right "amount" of each right to be balanced, that is, the extent to which copyright law should be adjusted to one side or the other, and such task is even more difficult when in face of rapid technological development and by virtue of lack of information of concrete effects on incentive and access.\textsuperscript{81} At the end, it is nothing but a theoretical framework of ensuring incentive and access.\textsuperscript{82} Pragmatically way of how to make this balance remains to be seen. In any case, even though this approach does not offer any concrete solution but rather a theoretical framework on which our analysis is taken, it at the very least suggests that "Congress and the courts at least should wait for more information before acting."\textsuperscript{83}

B. Preservation

In terms of preservation of public access, the first sale doctrine contributes for availability of works that are out of print (e.g. sales were discontinued), withdrawn or suppressed by copyright owners (e.g. the author is unsatisfied with the content or quality of the work), or temporarily withdrawn for market reasons (the work is withheld as part of marketing strategy).\textsuperscript{84} Without the first sale doctrine, public access to a vast quantity of works would be hindered as greater control over availability would be on the hands of copyright holders.

\textsuperscript{79} Ibid.
\textsuperscript{81} "Indeed, the prospect of trying to "maintain" any given balance of incentives and access seems an almost impossible task under such conditions." (Liu, Joseph P. "Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership." \textit{William and Mary Law Review} 42, no. 4 (04/01/2001): 1312)
\textsuperscript{82} Recitals 3 and 4 of the InfoSoc Directive.
By reducing copyright owners’ prerogatives over copies already in circulation, the exhaustion principle helps preservation of works. One example of that is related to secondary markets where works from many periods may be found. That is, “secondary markets not only keep these works in circulation but also prevent their permanent loss by encouraging redundancy via broad geographic distribution of multiple copies.”

C. Privacy

First sale also promotes consumer privacy. After lawfully acquiring a copy of a work, a consumer can make private use of it the way she intends and if she decides not to keep the copy anymore, she can resell or give it away privately and anonymously. The reason underlying such benefit is related to conventional understandings of physical property that permit the owner of a personal property to make use of or alienate it as she intends. The first sale doctrine is a reflect of how copyright law relates to consolidated privileges towards personal property. Copyright law limits copyright owners’ ability in terms of controlling one’s personal property, but it at the same time restraints certain acts that may unfairly affect copyright owners’ economic interest (e.g. by not allowing her to make a copy of the copyrighted work without the rights holder authorization).

If the first sale is absent, rights owners would be entitled to track down and monitor the flow of the copyrighted work, obtaining not only financial compensation but rather information on each person in the downstream. Furthermore, those copyright management measures may enable copyright owners to make use of their consumer’s data (including interests and habits) collected from copyright management measures.

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86 Ibid., 896.
87 “The incidents of copy ownership flow ineluctably from possession and dominion over the physical copy. They are simply a part of what it means to own physical property” (Liu, Joseph P. "Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership." William and Mary Law Review 42, no. 4 (04/01/2001): 1300).
D. Transactional clarity

First sale reduces transaction costs and promotes market efficiency. Copyright owners would be able to charge royalties for – or even prohibit – any use or transaction (e.g. a book to a friend) made by users, if the first sale were not to be applied. If transaction costs were to be applied for each use of a copyrighted work, such as reading, such costs would actually outweigh the value of such uses, and “in addition, the extremely high cost (and low effectiveness) of enforcement of such a right further undermines the efficiency of such a rule. Copyright law thus properly transfers the right to read to the owner of the copy, leaving the copyright owner only the ability to recoup such value indirectly through the sale of copies.” The same understanding would apply in cases involving the resale or lending of a book to a friend. It would be “costly to license and difficult to enforce.”

Limitations to that are provided to the extent to which copyright owner interests are unfairly undermined and transactions costs are minimized. For instance, in case of rental and public lending of copyrighted works, which due to the Rental and Public Lending Directive are exclusive rights to copyright owners. It might be easier to identify and charge institutions responsible for rental and public lending, such as libraries, as in this case transaction costs are reduced.

Besides, information costs are also reduced with first sale. When purchasing a CD, a consumer knows exactly what she is purchasing and which rights are conferred to her. Conversely, “[a]ttempts to significantly change existing patterns of ingrained behavior could be quite costly and, in the end, unsuccessful (at least in the physical environment).”

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91 Ibid., p. 1318.
92 Ibid., p. 1319.
93 See Article 3 of the Rental and Lending Directive.
3. THE CHALLENGES OF THE DIGITAL WORLD

3.1 The digital environment and challenges to first sale

Before the advent of the Internet, distribution of goods was made exclusively by physical means. A set of copies of Ray Bradbury’s dystopian novel *Fahrenheit 451* distributed in New York with the copyright holder’s permission could freely circulate there, transported from store to store, handled from a consumer to another. But also, that set of copies could be shipped to France to be sold there, in which case the importer in France would have to ask for the copyright holder’s permission, as well as comply with French import rules, subject to French customs surveillance. There are physical limitations and physical controls. In the past few decades, however, society has witnessed digitalization of business models and infrastructure models.\(^{96}\) Distribution of copyrighted works transitioned into online transmission, which does not suffer many times, in practical terms, those physical limitations and controls faced in the physical world. The same set of *Fahrenheit 451* copies would be transmitted from the USA to France as fast as a blink of an eye. Despite reluctance from some,\(^{97}\) digital distribution has today turned out to be the rule in matters of distribution\(^ {98}\) and has everything to keep growing in the upcoming years,\(^ {99}\) a situation which raises a number of issues when it comes to the first sale doctrine application.

In 2017 the music industry has seen a growth of around 60% in streaming services revenue and a decrease of 7% in physical revenue and 20% in download revenue.\(^ {100}\) In the same year, Spotify, the world’s most well-known provider for music streaming services, has

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\(^ {99}\) Liu, Joseph P. "Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership." *William and Mary Law Review* 42, no. 4 (04/01/2001): 1249. Also: “as digital technology has evolved, the distribution of copyrighted works has increasingly moved away from physical copies” (Perzanowski, Aaron, and Jason Schultz, 'Digital Exhaustion' 58(4) UCLA Law Review (04/01/2011): 901).


In the physical world, the first sale doctrine was triggered upon a single occurrence: a transfer of ownership.\footnote{Perzanowski, Aaron, and Jason Schultz, "Digital Exhaustion" 58(4) UCLA Law Review (04/01/2011): 901.} Today society is increasingly getting used to the distribution through platforms “digitally encoded in an electromagnetic pattern of ones and zeros.”\footnote{Liu, Joseph P. "Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership." \textit{William and Mary Law Review} 42, no. 4 (04/01/2001): 1249.} As a matter of fact, in digital distribution no physical property is handled. The answer to first sale in the digital environment, therefore, turns into a more complex issue.

How to balance copyright owners’ rights and digital copy owners’ rights in light of these changes then? The InfoSoc Directive was enacted by the European parliament aimed at harmonizing certain aspects of copyright and related rights in the information society, providing for a legislation adequate and suitable for the new types of exploitation of copyrighted works arising from the upcoming technologies.\footnote{Recital 5 of the InfoSoc Directive.} The relevance of the harmonization is even greater in the information society as the exploitation of intellectual property rights are made often on a transborder basis.\footnote{Recital 6 of the InfoSoc Directive.}

On the one hand, a harmonized legal background contributes for legal certainty and provides “for a high level of protection of intellectual property”, says that directive.\footnote{Recital 4 of the InfoSoc Directive.} The consequence of such harmonization, on the other hand, is the promotion of creativity and
innovation and of a sound competition in the European industry. That is how the European legislator aims to strike a balance between copyright holders rights and public interest. However, the InfoSoc Directive does not establish for any difference between the physical world and the digital world, it only states that the objective of the directive is to adapt the rules of the right to the information society. Therefore, it provides for little help on how to keep such balance in matters of exhaustion in the digital environment.

The issue of the balance between copyright holder’s rights and public access in the digital economy becomes yet more problematic if we consider the lack of copyright policy consideration from courts, and this shift – from analog to digital – results almost as an accident from the advance of technology. One of the results of this shift to online market places is that rights holders have been able to impose increasingly control over pricing and availability of works and also affected consumer welfare by centralizing control on what they can and cannot do with their purchases. Another problem is the prevention of the creation of a secondary market, limiting opportunities for innovation, and threatening “market efficiency and competition by increasing transaction costs and the risk of consumer lock-in.”

Also, the notion on owning a physical property seems to have less importance as content is increasingly distributed on digital format, so that it seems that conventional understandings on the rationale surrounding physical copies may not apply towards digital goods. That notion (towards a physical copy), however, is of central importance when it comes to economic policy in relation to copyright. In the digital economy, users have increasingly made use of services and decreasingly experience domain over copies. Creative industries are increasingly applying business models where the actual possession of the digital goods is overcome by the mere access to contents.

This is not the first time that first sale is seemingly limited by advances on technology. For instance, the Rental and Public Lending Directive was approved after copyright holders

113 Ibid.
116 Pascale, 4.
have pressure the European legislators to create limitations to use of copyrighted works.\textsuperscript{117} At the time of the advent of compact disks (CDs), for instance, the music industry in the US attempted to control the sale of used CDs,\textsuperscript{118} but it has failed. This example of the shift to distribution of works attached to CDs is relevant for purposes of this study since CDs, “unlike prior recording media, are virtually indestructible and suffer no appreciable loss in quality over time.”\textsuperscript{119} Moreover, a content on a CD can be easily copied into another CD or to a computer’s hard drive. Like CDs, digital copyrighted files can be easily copied and transferred over the Internet.

In the digital environment, many are the concerns on whether exhaustion should extend to digital goods and they can be resulted from issues of reproduction of copyrighted works (the transmission of a digital work implies the making of a copy of that work) or from changes in business models, e.g. sale of digital content by actually licensing them. It may be the case also where the implementation of technological protection measures reduces or prevent consumer from accessing or transferring copyrighted works, such as games. The consequence of that is what some commentators call as the marginalization of the first sale, leading to the loss of its benefits in the digital economy.\textsuperscript{120} Below, some comments are made on such issues.

\textbf{A. Reproduction rights issues}

Distribution was the primary activity carried out by rights holder.\textsuperscript{121} A digital work can be transferred from a user to another by many ways, but the most common is the reproduction from one’s device to the other person’s device.\textsuperscript{122} Therefore, the use of copyrighted digital

\textsuperscript{119} Ibid., 1293.
\textsuperscript{120} Perzanowski, Aaron, and Jason Schultz, 'Digital Exhaustion' 58(4) UCLA Law Review (04/01/2011): 904.
\textsuperscript{121} Ibid., 891.
\textsuperscript{122} See "In this respect it is also important to take into account that a digital work can be passed on to others in various ways – whether through reproduction of the original data file or by passing on the data medium on which the original buyer first stored the data file. However, the latter case is an exception in practice since hardly any original buyer will sell his hard disk or server to the second buyer." (Rauer, Nils, and Diana Ettig. "Can E-books and Other Digital Works Be Resold?" Journal of Intellectual Property Law & Practice 10, no. 9 (January 9, 2015): 715)
work by consumers may imply potential infringement and liability that goes beyond distribution rights and affect other exclusive rights,¹²³ such as the reproduction right.

In practical terms, the act of distribution of digital works over the Internet implies the creation of temporary copies in many computers (e.g. computers of the Internet provider, on routers on the Internet, on the addressee’s Internet provider computer, and on the addressee’s computer).¹²⁴ That occurs, for instance, when one sends a digital book or article to a friend via e-mail. As will be further addressed in Chapter 5, no decision on digital exhaustion of copyrighted works other than software has been issued so far at a EU level. But even if the ECJ rules that exhaustion should apply to all kinds of digital works, allowing consumers to part away from title in and to digital files, the act of transfer can nevertheless be potentially considered as infringing upon copyright holder’s rights.

Unlike the pre-digital era, in which the use of a copyrighted work did not imply in reproduction of it, in the digital environment the use of a work stored in the internal memory of a device may raise issues of reproduction of the work, with copyright holders arguing that the transfer of files via network constitutes an act of reproduction.¹²⁵ For instance, in the US, courts have claimed that the uploading of a copyrighted content into a computing device’s RAM implies reproduction rights and thus infringe upon holders rights.¹²⁶ That was an approach first taken by the Ninth’s District Court in the case MAI involving computer programs.¹²⁷ Other courts in the US applied the same reasoning in other cases.¹²⁸ As a result, the Congress upheld that position in the DMCA by enacting an exception to reproduction rights allowing computer maintenance companies to run computer programs under the scope of their services (accepting although implicitly the issue of reproduction held by the court in MAI).¹²⁹

More recently, the US Southern District Court of New York decided upon a case involving the resale of “used” lawfully acquired digital music.¹³⁰ In that case, the company ReDigi Inc. (defendant) employed tools to ensure that the digital files were legally purchased and that after uploading them onto ReDigi’s “Cloud Locker” the copy in the user’s computer

¹²⁶ Ibid.
¹²⁷ MAI Systems Corp. v. Peak Computer, Inc., 991 F.2d 511 (9th Cir. 1993).
¹²⁹ Section 117 (c) of the DMCA: “Notwithstanding the provisions of section 106, it is not an infringement for the owner or lessee of a machine to make or authorize the making of a copy of a computer program if such copy is made solely by virtue of the activation of a machine that lawfully contains an authorized copy of the computer program, for purposes only of maintenance or repair of that machine.”
was made unavailable. 131 Nevertheless, that court found that “the sale of digital music files on ReDigi’s website infringes Capitol’s exclusive right of distribution.” 132 Besides, under that court’s view, “the first sale doctrine does not protect ReDigi’s distribution of Capitol’s copyrighted works” since “as an unlawful reproduction, a digital music file sold on ReDigi is not ‘lawfully made under this title.’” 133

Because of that, consumers might be limited to use the work in relation to the device in which the content is stored, undermining the application of the first sale doctrine as they will not be allowed to transfer it onto a possible further buyer’s device. Even if the consumer deletes her copy after transferring the file, it is undeniably the fact that multiple copies were made.

Unlike US courts, the ECJ when addressing issues of reproduction in a case relating online lending of e-books by libraries seems to take a different approach. 134 The Court stressed out that, although the copy had to be reproduced from the library’s server onto the user’s carrier at each act of e-lending, the operation was “essentially similar” to the lending of physical works since (1) just one copy of the works was available at a time for users and (2) for a limited period of time (in the end of which the copy possessed by the user was made unusable). 135 By taking this approach the ECJ focuses on practical effectiveness of the Directive’s dispositions and foreclose arguments on reproduction issues where the operation is “essentially similar characteristics to the lending of printed works,” 136 showing the ECJ support for copy users rights. 137

For the purposes of this work, however, the significance of that decision depends upon how European courts may interpret legal dispositions concerning exhaustion of distribution rights in the digital environment. That is, if no exhaustion is triggered after the first sale of a digital copyrighted work, then there is no reason to further discussion on reproduction rights.

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131 Ibid., p. 2.
132 Ibid., p. 6.
133 Ibid., p. 11.
135 Ibid., p. 52.
136 Ibid., p. 53.
137 Despite not addressing the issue of digital exhaustion, “the mere fact that the CJEU did not raise this issue at all might indicate that the CJEU was not concerned about reproduction rights affected by digital lending. This would also be consistent with its broad views of exhaustion in the context of software downloads expressed in Oracle v. UsedSoft.” (Determann, Lothar. “Digital Exhaustion - New Law from the Old World” (06/04/2017): 20. Available at SSRN: https://ssrn.com/abstract=2980483 or http://dx.doi.org/10.2139/ssrn.2980483)
B. End user licence agreements (EULAs)

Distribution by means of digital channels are increasingly common, while physical objects seem not to be any longer the primary distribution mechanism.\textsuperscript{138} Yet, employment of device-embedded and cloud-delivered content deviate even more the application of the first sale doctrine.\textsuperscript{139} Consumers are tied not only to particular devices (such as Amazon’s Kindle) but to particular services,\textsuperscript{140} which may cause marginalization of the first sale and loss of its benefits in the digital environment.

The first sale doctrine is intrinsically related to contractual law. Theoretically, where an agreement establishes for a licence instead of a sale (and imposes limitations, etc.), first sale can be easily avoided. Historically, when a consumer buys a physical book or music on compact disks, such purchase is not accompanied by a complex contract delimiting uses or prerogatives she is entitled to.\textsuperscript{141} She therefore can use, access and transfer that particular physical copy.

Today, however, the sale of digital content is rarely carried out without an end user licence agreement (EULA) setting out the precise terms to be complied by the “purchaser”. The application of EULAs undermines the first sale doctrine’s impacts by establishing for licences rather than effective sale regime.\textsuperscript{142} By doing so, copyright owners avoid discussions on property rights and exhaustion rules to be triggered.

German courts have addressed cases where consumers bought games, on DVD or by downloading them, in either case they had to accept terms of services provided by the seller, whereby the resale was forbidden.\textsuperscript{143} The courts found that the terms apply and were enforceable and did not run afoul the copyright legislation and exhaustion principles because (1) if the content were attached onto DVD, that disk could be resold as long as the resale occurs before the creation of an account by the consumer and (2) in case of downloaded copies, no exhaustion of right would take place anyhow as that provision is only triggered in relation to

\begin{footnotesize}
\begin{itemize}
  \item Perzanowski, Aaron, and Jason Schultz, 'Digital Exhaustion' 58(4) UCLA Law Review (04/01/2011): 903.
  \item Ibid.
  \item Ibid., 904.
  \item Perzanowski, Aaron, and Jason Schultz, 'Digital Exhaustion' 58(4) UCLA Law Review (04/01/2011): 901.
\end{itemize}
\end{footnotesize}
physical copies. In a case the resale of audio-books or e-books, the Higher Regional Courts in Hamburg considered valid clauses prohibiting the resale as it found that no digital exhaustion would apply.

Despite users may feel like they own the content, copyright holders actually restrict any act concerning the transfer of title to the copy. That leads some commentato rs question what we effectively “buy” when we press the button “buy” in purchases of digital content. Indeed, “[a]s a rule the underlying standard terms and conditions will exclude further distribution of the work downloaded.”

C. Technological protection measures

Technological protection measures (TPM) intended to track and monitor use, reproduction and transmission of a digital copyrighted work are increasingly being employed today as copyright owner argues they are necessary for the protection of the work due to the ease in copying a digital work. An example of TPM is tethering technology.

Tethering is a tool commonly employed by copyright owners in order to bind certain systems to particular devices or services, “allowing copyright holders control over postsale consumer uses by requiring access to these services for the enjoyment of the purchased good.” More precisely, it “suppresses secondhand sales by permanently identifying particular media items (such as video game discs) with a single user’s device.”

Moreover, the court found that the case at stake would differ from Oracle vs UsedSoft because in the case under analysis (1) the rights holder had to provide continuous services to enable playability for consumers and (2) no single and independent copies are sold but a whole package of services. (Determann, Lothar. “Digital Exhaustion - New Law from the Old World” (06/04/2017): 16. Available at SSRN: https://ssrn.com/abstract=2980483 or http://dx.doi.org/10.2139/ssrn.2980483)


Nils, 713.


"The development of anti-used game technology is but the latest content industry tactic for limiting the first sale doctrine. Although video game technology is generally less susceptible to piracy than computer software, video game titans have long employed DRM and long resisted the first sale doctrine. Tethering technology weds these two ideas, using DRM to permanently link video game discs or other media to particular pieces of hardware.” (McIntyre, Stephen. "Game Over for First Sale." Berkeley Technology Law Journal 29, no. 1 (2014): 28. http://www.jstor.org.ezproxy.itis.uu.se/stable/24119937).
For purposes of exemplification, in the US, section 1201 of the Digital Millennium Copyright Act prohibits acts of circumvention of technology protection measures and the distribution of tool that may facilitate such circumvention.\textsuperscript{152} Concerned about the effects of said section to a possible marginalization of the first sale doctrine, the US Copyright Office and the Department of Commerce addressed the issue in early 2000s. Although indicating that widespread tools for tethering works to a particular device and thus restricting their further use may raise concerns on the first sale rules, the office concluded at that time that since the employment of such mechanisms were not widespread the first sale was still unscathed.\textsuperscript{153} However, the Register of Copyrights highlighted that “should this practice become widespread, it could have serious consequences for the operation of the first sale doctrine, although the ultimate effect on consumers is unclear.”\textsuperscript{154}

At the EU level, the InfoSoc Directive recognizes that “technical measures to protect works (...) are essential insofar as the ultimate aim of these measures is to give effect to the principles and guarantees laid down in law”\textsuperscript{155} and “illegal activities might be carried out in order to enable or facilitate the circumvention of the technical protection provided by these measures.”\textsuperscript{156} Accordingly, member-states are compelled to “provide adequate legal protection against the circumvention of any effective technological measures.”\textsuperscript{157} A broad interpretation on these technological measures was taken by the ECJ in *Nintendo v. PC Box*,\textsuperscript{158} finding that the scope of the InfoSoc Directive would cover both the medium onto which the copyrighted content is embodied and the videogame console.\textsuperscript{159}

Tethering technologies may limit availability of works since they will be available only in the territory in which right holders authorized sales.\textsuperscript{160} An example of that is that Amazon is able to exclude access from copies of certain e-books automatically, raising also problems on censorship and control over freedom of speech.\textsuperscript{161} Tethering may also hinder privacy. Without tethering consumers are allowed to resell copies so that transactions occur

\textsuperscript{152} Section 1201 of the Digital Millennium Copyright Act.
\textsuperscript{155} Recital (13) of the InfoSoc Directive.
\textsuperscript{156} Recital (47) of the InfoSoc Directive.
\textsuperscript{157} Article 6 of the InfoSoc Directive.
\textsuperscript{158} C-355/12, *Nintendo Co. Ltd. v. PC Box Srl* [2014] (ECJ).
\textsuperscript{161} Ibid.
anonymously and without any notice to copyright holders. However, because tethering obliges consumers to connect to the provider’s server, there might be a risk of disclosing personal information. Tethering may also increase information and transaction costs as digital purchases are usually subject to contracts with high information costs.

In this Chapter, we have seen how the digital world has affected the application of the first sale doctrine. A consumer who purchases a physical copy of a book is allowed to make use of and transfer it without any interference from the copyright holders. In purchasing the very same book distributed through digital medium, however, the use and transfer of it may raises issues of unlawful reproduction, aggrieved by the fact that EULAs often limits user’s prerogatives on transfer. Lastly, the EU legislation forbids employment of tool to circumvent TPM. These facts make it difficult to apply the first sale doctrine. However, what if consumers indeed have the same rights towards digital and physical copies ownership, under the ECJ case law on EU copyright law? In Chapters 4 and 5 below, I address international and EU copyright law on (digital) exhaustion and how the ECJ have interpreted them.

4. DIGITAL EXHAUSTION UNDER EU LAW

4.1 International Law: Berne Convention and WIPO Copyright Treaty

The Berne Convention provides for rules regarding the protection of author rights and their works. Works covered by that Convention are literary, artistic and scientific works (such as songs, books, writings, paints, etc.). The Berne Convention provides for the exclusive rights of distribution, but there is nothing on exhaustion of those rights after the first sale. Therefore, it does not help answer the question addressed by the present work.

The WIPO Copyright Treaty ("WCT") is a multilateral agreement proposed by the World Intellectual Property Organization ("WIPO") and related to author rights and protection of their works. The WCT was adopted on 20 December 1996 and approved by the European Community by Council Decision 2000/278/EC of 16 March 2000 (OJ 2000 L 89, p. 6). The scope of protection established by the WCT "extends to expressions and not to ideas,

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162 Ibid., 906.
163 Ibid.
procedures, methods of operation or mathematical concepts as such,"\textsuperscript{166} and includes computer programs “as literary works within the meaning of Article 2 of the Berne Convention.”\textsuperscript{167}

The WCT provides that authors shall “enjoy the exclusive right of authorizing the making available to the public of the original and copies of their works through sale or other transfer of ownership.”\textsuperscript{168} Contracting parties of the WCT will have the liberty to provide for the rules concerning how and under which conditions exhaustion shall take place “after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author,”\textsuperscript{169} leaving the door open for contracting countries to legislate in matters of the exhaustion (whether national, international or regional exhaustion).

From the very wording of WCT, there is no mention as to whether or not the “original” and “copies” refer to physical goods only or extend to all sort of goods instead, regardless of whether or not attached to a tangible object. However, the WCT disposition related to distribution rights and exhaustion should be read in accordance with the Agreed statements concerning Articles 6 and 7 adopted by the Diplomatic Conference on December 20, 1996 (the same date of the WCT itself).\textsuperscript{170} It says that “[a]s used in these Articles, the expressions “copies” and “original and copies,” being subject to the right of distribution and the right of rental under the said Articles, refer exclusively to fixed copies that can be put into circulation as tangible objects.”\textsuperscript{171}

That statement makes it clear by the adopting the expressions exclusively and tangible objects that exhaustion should apply only in relation to tangible goods. Accordingly, a sale or transfer or ownership of a digital copyrighted good do not trigger exhaustion, so that right holders are entitled to control the further circulation of that good in the market.

However, “it is unclear what weight the Agreed Statements will carry, considering the decision not to include such a clarification in the Treaty itself.”\textsuperscript{172} Those statements thus might not have the status of a rule of international law (unlike the dispositions of the WCT) as they may lack authoritative weight. Should they have the weight of law, they could have been included in the wording of the Treaty itself. Notwithstanding, it is undeniable that it should be

\textsuperscript{166} Article 2 of the WTC.
\textsuperscript{167} Article 4 of the WTC.
\textsuperscript{168} Article 6 (1) of the WTC.
\textsuperscript{169} Article 6 (2) of the WTC.
\textsuperscript{170} The full text of the Agreed Statements concerning Articles 6 and 7 is available at: http://www.wipo.int/wipolex/en/details.jsp?id=12741 [Accessed on 21 February, 2018]
\textsuperscript{171} Agreed statements concerning Articles 6 and 7 of December 20, 1996.
used for purposes of interpretation of the dispositions of the WCT. That is the position of the ECJ in *AllPosters* case (see Section 5.3 below).

4.2 European Law

A. The InfoSoc Directive: tangible and intangible articles? Possible interpretations from the very wording of Article 4 of the InfoSoc

As analyzed in Section 4.1 above, according to Article 4 of the InfoSoc Directive, copyright holders shall have exclusive distribution rights, which are exhausted “where the first sale or other transfer of ownership in the Community of that object is made by the right holder or otherwise with his consent.”\(^\text{173}\) There is no mention, however, as to whether “that object” referred to in Article 4 above refer to tangible goods or both tangible and intangible articles. It therefore raises the question of whether or not exhaustion is triggered after the first sale of an intangible copyrighted good.

The InfoSoc Directive has been established in order to adapt copyright rules to the digital environment,\(^\text{174}\) but the wording of Article 4 provides us with no answer on digital exhaustion. However, when addressing distribution rights and their exhaustion, Recital 28 of that directive sets out that “copyright protection … includes the exclusive right to control distribution of the work incorporated in a tangible article.”\(^\text{175}\) The insertion of the word “includes” by the European legislator opens the way for possible divergent interpretations, depending on the level of restrictiveness applied by the one constructing the law.

A first – and stricter – interpretation is that the word *includes* shall mean “refer exclusively to” tangible articles. Accordingly, intangible goods should be kept outside the scope of that article. From a strict interpretation, therefore, exhaustion of distribution rights does not extend to intangible goods.

A second – and more moderate – approach is that the European legislator has chosen not to legislate in matters of relevance of the tangibility of goods for purposes of the application of exhaustion rules, leaving some room to possible interpretations to be applied by the courts (either the ECJ or national courts). An interpretation from the ECJ would then be necessary to

\(^{173}\) Article 4 (2) of the InfoSoc Directive.


\(^{175}\) Recital 28 of the InfoSoc.
avoid national courts to diverge in the very same question, complying with one of the aims of the InfoSoc regarding the promotion of a single internal market between member-states.\footnote{Recital 6 of the InfoSoc Directive: “Without harmonisation at Community level, legislative activities at national level which have already been initiated in a number of Member States in order to respond to the technological challenges might result in significant differences in protection and thereby in restrictions on the free movement of services and products incorporating, or based on, intellectual property, leading to a refragmentation of the internal market and legislative inconsistency. The impact of such legislative differences and uncertainties will become more significant with the further development of the information society, which has already greatly increased transborder exploitation of intellectual property. This development will and should further increase. Significant legal differences and uncertainties in protection may hinder economies of scale for new products and services containing copyright and related rights.”}

A third – and broader – construction is that by choosing the word “including” in reference to tangible goods, the legislator would not exclude from the scope of Article 4 copyrighted goods of different nature, such as intangible goods. Exhaustion of distribution rights, therefore, is triggered after the first sale of any copyrighted goods, regardless of the tangibility of the article onto which the work is embodied.

The \textit{travaux préparatoires} of the InfoSoc may help to shed some light on the question. According to it, “the expressions "copies" and "originals and copies" used in Article 4 refer exclusively to fixed copies that can be put into circulation as tangible objects.”\footnote{Commission of the European Communities, Proposal for a European Parliament and Council Directive on the harmonisation of certain aspects of copyright and related rights in the Information Society, COM(97) 628 final, 27.} It follows that the European Commission had intended to exclude from exhaustion of distribution rights intangible goods. However, the \textit{travaux préparatoires} dispositions do not have the status of law, so that discussions may still arise from the reading of Article 4 of the InfoSoc Directive.

\section*{B. Software Directive: tangible and intangible articles? Possible interpretations from the very wording of Article 4 of the Software Directive}

The Software Directive provides for specific rules on the protection of computer programs. In general terms, it brings up a definition of the expression “computer program”, which “shall include programs in any form, including those which are incorporated into hardware”\footnote{Recital 7 of the Software Directive} and should be protected under copyright law as literary works within the meaning of the Berne Convention.\footnote{Recital 6 and Article 1 of the Software Directive} The Software Directive recognizes the easiness of copying a computer program in the information society, which can happen “at a fraction of the cost needed to develop them...
independently.” Software market is also said to play an important role within the EU. For these and other reasons, that directive sets forth specific rights for copyright holders. The rights conferred to holders are provided for in Article 4 (1) of that Directive and include (1) reproduction in any for, either in whole or partially, (2) translation, adaptation, alterations, (3) distribution to the public “of the original computer program or of copies thereof.” Under Article 4(2) “[t]he first sale in the Community of a copy of a program by the rights holder or with his consent shall exhaust the distribution right within the Community of that copy.”

Neither the wording of Article 4 of the Software Directive nor its recitals provide us with a clear trace about the relevance of the tangibility of an article to which the computer program is incorporated for exhaustion of distribution rights purposes. That is, there is no express mention as to whether, for purposes of exhaustion of distribution rights to be triggered, the computer program should be attached to a tangible article. However, that Directive is categorical to establish that the sale of a computer program exhausts rights of distribution “of that copy.” That would leave room for two possible interpretations.

A first interpretation is that, given the absence of an express provision on whether exhaustion applies to physical mediums only (e.g. a computer program stored in a CD or DVD), or otherwise applies regardless of the tangibility of the product (for example, a software available for download), there would be a gap in the law on that regard. Accordingly, it would require the construction by the ECJ in order to decide on that matter. Such interpretation is outdated by virtue of the decision of the CJEU in UsedSoft v Oracle case.

A second reading is that by mentioning that exhaustion will apply where the first sale of that copy takes place, the European legislation wished to establish the irrelevance of the medium tangibility for purposes of application of exhaustion rules. That is what the CJEU found out UsedSoft v Oracle case.

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180 Recital 2 of the Software Directive.
181 Recital 3 of the Software Directive.
182 Article 4 (1) of the Software Directive.
183 Article 4 (2) of the Software Directive.
185 See Section 5.1 below.
5. DIGITAL EXHAUSTION UNDER THE ECJ CASE LAW

As presented above, while the WCT seems to exclude from exhaustion the first sale of digital goods, from the reading of Article 6 of that Treaty coupled with the Agreed statements on Articles 6 and 7, the InfoSoc Directive appears to leave some room for interpretations either allowing digital exhaustion or otherwise precluding it. The same would apply to the Software Directive, but in such a case the CJEU has already come up with a categorical interpretation in UsedSoft v Oracle. Below a brief presentation of the findings of the CJEU about the construction of exhaustion rules is made. The decisions issued by the CJEU concerning computer programs (under the Software Directive), namely UsedSoft v Oracle and Ranks, will be addressed first, followed by the assessment of AllPosters and VOB vs Stichting cases under the InfoSoc Directive.

5.1 UsedSoft case

In UsedSoft case, Oracle, a technology company which develops and markets computer programs, distributed copies of software to end consumers who, upon the conclusion of a licence agreement, were authorized to download a copy of the purchased software onto their data carriers. The licence agreement granted a right of use the computer program and imposed further restrictions, particularly related to the transfer of ownership or possession from users in relation to third parties. In consideration of that, Oracle’s customers undertook to pay a fixed sum lump. The licence was characterized by a non-exclusive, non-transferable and free of charge right of use the software under the agreement, for internal business purposes only, without limitation of time.

In that context, Oracle became aware that UsedSoft, a company operating in the second-market of software, marketed used Oracle’s computer programs, which were purchased from Oracle’s customers to UsedSoft together with the attached licence agreement. Second-hand buyers (UsedSoft’s clients) were able to obtain the used copies by directly downloading

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187 See: “‘Grant of rights’ under the 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.’” (C-128/11, UsedSoft GmbH v Oracle International Corp. [2012] (ECJ), p. 23).
them from Oracle’s website. The agreements at stake were all in force at the time of the sale.

The case proceedings were stayed by the Bundesgerichtshof (Federal Court of Justice) in Germany and referred to the CJEU with a few questions on exhaustion of distribution rights of intangible copies of software related to that case. In short, the CJEU found that the digital distribution of a copy of a computer program exhausts distribution rights on that copy pursuant to Article 4(2) of Directive 2009/24. According to that court, exhaustion is triggered where (1) the distribution of a copy of a computer program is done through digital means, even if (2) such transaction is made with a non-exclusive and non-transferable licence to grant a right of use without limitation of time, in consideration of which (3) the purchaser pays a one-time single fee (intended to reward the right holder for the economic value of the software).

The rationale surrounding the decision is that the operations listed above (namely the distribution of the copy by means of downloading together with an agreement under those terms) should be considered as an “indivisible whole,” and such “indivisible whole” as in the main proceedings is a “first sale” within the meaning of Article 4(2) of the Software Directive.

The consequence is that first-hand buyers, like Oracle’s clients, can rely on exhaustion of distribution rights and accordingly resell “used licences” – to use the expression adopted by the CJEU – to future buyers, like UsedSoft and its clients, and so can these second-hand buyers transfer them to others. The future purchaser is, according to the CJEU, a “lawful purchaser” within the meaning of Article 5 of the Software Directive so as to enable him to rely on the exceptions to restricted acts provided for in that article (e.g. reproduction of the copy without the right holder’s authorization when necessary for the use).

Therefore, after UsedSoft, second-hand markets of computer programs can exist without the interference of copyright holders. Accordingly, “copyright owners have shied away from suing resellers of software that was sold online or on disks, leave alone trying to prevent consumers from reselling computers, smartphones, cars or other valuable devices based on assertions that the consumers do not own the software copies on such devices.”

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190 Ibid., p. 25.
191 Ibid., p. 28.
192 Ibid., p. 72.
193 Ibid., p. 84.
The *UsedSoft* case is a leading case in the EU and may have a significance that goes beyond computer programs to reach other subject-matter of copyright. Given its relevance in the field of copyright, below we present the main implications of that decision for the interpretation of EU copyright law on the first sale doctrine and for the construction of licence agreements adopted by companies, followed by its significance in relation to other subject-matter of copyright.

**A. Exhaustion for (at least some) digital goods becomes a reality under EU law**

Under the CJEU’s view, Article 4(2) of the Software Directive makes no distinction as to whether or not the concept of “first sale” provided for therein concerns only to physical goods. It should thus be read so as to encompass any and all forms of sale of a computer program.195 By considering the wording of Article 1(2) and Recital 7 of the Software Directive (‘computer programs’ it aims to protect ‘include programs in any form, including those which are incorporated into hardware’)196, the ECJ comes to the conclusion that the European legislator intended to assimilate, under the purposes of the Software Directive, tangible and intangible copies of computer programs.197

According to the CJEU, from an economic point of view there is no difference as to whether the sale is carried out by means of a physical device or through downloading the software from the internet.198 That court also recalled that the objectives of the exhaustion of distribution rights “is, in order to avoid partitioning of markets, to limit restrictions of the distribution of those works to what is necessary to safeguard the specific subject-matter of the intellectual property concerned.”199

Therefore, *UsedSoft* decision brings to an end the discussion of digital exhaustion concerning computer programs. Under the findings of the CJEU, digital exhaustion in the context of the Software Directive is unambiguous meaning that whether or not embodied to a physical medium, copies of computer programs which are object of a sale can be further resold by first-hand purchasers to second-hand buyers.

Notwithstanding the findings above, the CJEU did not take the opportunity to address the question of whether digital exhaustion shall extend to works under the InfoSoc Directive.

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196 Recital 7 of the Software Directive.
198 Ibid., p. 61.
199 Ibid., p. 62.
In fact, by excluding the application of the InfoSoc Directive and focusing its analysis solely under the \textit{lex speciale} (namely the Software Directive), the CJEU avoided a conclusion in relation to the InfoSoc Directive. However, \textit{UsedSoft} decision may still provide us with some traces to be sensed when it comes to other types of copyrighted works, such as those provided below.

\textbf{B. A broad interpretation for “first sale”}

In \textit{UsedSoft}, the CJEU starts out the decision by defining what is a “sale” under the meaning of Article 4(2) of Directive 2009/24 (which provides that the first sale within the Community triggers the exhaustion of distribution rights). Under that court’s view, a “sale” presupposes a transfer of ownership.\textsuperscript{200} In order to define a “sale” under the meaning of the Directive, the entire operation should be taken into account as an indivisible whole.\textsuperscript{201}

The CJEU by doing so takes a broad interpretation on the definition of “sale”, following the Advocate General Opinion issued on that case, so as to encompass all commercial transactions that involve (1) a grant of a right to use, (2) for an unlimited period, (3) in return for payment of a fee. Otherwise, under that position, there would be no effectiveness in exhaustion of distribution rights since suppliers would merely name contracts as a “licence” rather than “sale.”\textsuperscript{202}

Although the decision refers to software, the same rationale could be applied by the courts in cases involving other subject-matter of copyright. E-books and digital albums have been sold mainly attached to an agreement providing for authorization of use but also limitations on property rights. Since a broad definition should be given to the concept of “first sale”, it must be stressed that the operations should be analyzed as a whole, as per \textit{UsedSoft}, regardless of some specific terms provided in contracts (including a provision prohibiting resale).

\textbf{C. Contractual implications}

Traditionally, a transfer of ownership is avoided from a licence agreement because it is from the very nature of a licence that the licensor maintains his property rights on the object

\textsuperscript{200} Ibid., p. 42.
\textsuperscript{201} Ibid., p. 44.
\textsuperscript{202} Ibid., p. 49.
of the agreement. The licensee is restricted to a right to use delimited by the contract dispositions. Conversely, a “sale” takes place when the owner decides to convey his rights in and to a property right. After UsedSoft, these beliefs are a half-true: the title of the agreement and limitations provided for therein shall not per se define whether it is a licence or actually a sale.

In UsedSoft, not only did the ECJ disregarded the agreement title (as a licence agreement) but rather its dispositions (particularly the limitations to the transfer of ownership). In UsedSoft, the agreement is said to be a licence and which payments were due to maintenance services and not for the software itself. That is not, under the CJEU’s position, enough to avoid exhaustion to trigger.

The conclusion reached by the CJEU in UsedSoft therefore makes any assessment on licensing matters much less black and white. Pragmatically, the ECJ view might affect legal certainty in contractual obligations. Regardless of the nomenclature or some dispositions, if the agreement meets the thresholds imposed by the CJEU, it could be taken as a sale for the purposes of characterization of “first sale”.

Lastly, it must be stressed that UsedSoft may have some significance in relation to other types of copyright subject-matter. If the same rationale employed by the CJEU in UsedSoft is to be applied analogously, agreements commonly employed by the major players in the copyright market could be put into check. For instance, in a situation where a consumer who is authorized under a licence agreement to download an e-book and use it for an unlimited period, in consideration of which he pays a fee to compensate copyright proprietor for the economic value of the e-book, that operation could be likely taken as a sale rather than licence, following the CJEU’s broad approach in UsedSoft.

D. Same meaning in relation to the InfoSoc: possible implications to other kinds of copyright

Despite Oracle’s attempts to bring attention from the CJEU to the dispositions set forth in the InfoSoc Directive concerning a possible interpretation avoiding exhaustion of distribution of digital goods, the CJEU was categorical to avoid the application of the InfoSoc Directive in a case where software was concerned.203

However, the CJEU stated that “[i]t is true that the concepts used in Directives 2001/29 and 2009/24 must in principle have the same meaning,” which can lead to a position that the same approach employed by the CJEU in *UsedSoft* could be applied in cases under the scope of the InfoSoc Directive. Reference was made to other cases decided by the ECJ in terms that, unless expressed otherwise in a specific legislative context, the concepts used in the body of directives related to copyright law shall have the same meaning.

By doing so, the “[t]he court acknowledged that there were good reasons to treat other works in the same way as computer programs, but also left room in its decision for a different interpretation of the different provisions of the Software Directive and the Information Society Directive.” Then, another decision from the ECJ is needed to end the discussion.

5.2 *Ranks* case: limited practical application as only back-up copies are concerned

Another decision of relevance, yet partial, for the topic of exhaustion is the one issued by the CJEU in *Ranks*. Although that case concerns the marketing of software and is grounded on the Software Directive, it seems that it has little practical significance because it relates to the resale of back-up copies, thus limiting the reach of *Ranks* to other cases.

The factual background in *Ranks* refers to the offer to sale of used licences of Microsoft Windows and Office by Mr. Ranks and Mr. Vasiļevičs at an online marketplace. Applying the findings in *UsedSoft*, the CJEU recalls that exhaustion of distribution rights applies where the sale of a computer program, regardless of the medium in which it is embodied, takes place within the Community. That allows the subsequent resale of that copy without interference of the copyright holder. Nonetheless, “in the case where the original material medium of the copy that was initially delivered to him has been damaged, destroyed or lost,” the initial purchaser cannot make use of the backup copy (referred to in Article 5 (2) of the Software Directive) for purposes of sale. In short words, the CJEU ruled out the possibility of sale of back-up copies of computer programs.

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204 Ibid, p. 60.
206 Bently, p. 151-52.
207 See: Bently, p. 151-52. See also: “Whether this decision will be confined to computer programs or also extended to other digital copies of a work acquired under licence, such as e-books, remains to be seen.” (Pila and Torremans, p. 322).
209 Ibid., p. 58.
The reasoning around *Ranks* decision is that, in so far as they constitute exceptions to the exclusive rights conferred by Article 4 of the Software Directive, the prerogatives provided for in Article 5 of that directive must be given a strict interpretation. Article 5 (2) sets out that “[t]he making of a back-up copy by a person having a right to use the computer program may not be prevented by contract in so far as it is necessary for that use.” Under the CJEU’s strict view, the back-up copy is intended “to meet the sole needs of the person having the right to use that program” and not for sale even if the original mediums has been damaged, destroyed or lost.

Nonetheless, in any case, the outcome found in *Ranks* is of limited reach for the discussion of digital exhaustion. Apart from reinforcing the findings in *UsedSoft, Ranks* nothing but rules out the possibility of sale of back-up copies. In a world where most of the sales of software are made online and the use of back-up copies is increasingly irrelevant, *Ranks* outcome does not echo far.

5.3 InfoSoc Directive in sight: *AllPosters* case

A third case of relevance for the topic of exhaustion of rights is *AllPosters*. Unlike *UsedSoft* and *Ranks*, the factual background in that case refers to artistic works under the scope of the InfoSoc Directive. In short, the CJEU ruled that, although the sale of a tangible article exhausts distribution rights related to that article, such rights shall not be exhausted where the work incorporated to that article is transferred onto a new object. Exhaustion of distribution rights does not extend to that new form – which could only be legally put into market upon the copyright holder’s authorization.

In that case, the company Art & Allposters International BV (“Allposters”) had been selling posters depicting copyrighted works with the authorization of Stichting Pictoright (“Pictoright”), a Dutch copyright collective management society. Allposters also offered to

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210 Ibid., p. 42.
211 Software Directive, Article 5 (2).
212 C-166/15, Aleksandrs Ranks and Jurijs Vasiļevičs v Finanšu un ekonomisko noziegumu izmeklēšanas prokuratūra and Microsoft Corp. [2016] (ECJ), p. 43.
213 Ibid.
216 Ibid., p. 50.
sale such works incorporated to a canvas by employing a chemical process that transferred the image from the paper poster onto the canvas. Since Pictoright had not authorized the sale of the canvases, it sued Allposters for copyright infringement.\textsuperscript{217}

Two are the main findings of the CJEU in \textit{AllPosters} for purposes of this work. First, after referring to the agreed statement concerning Articles 6 and 7 of the WIPO Copyright Treaty, the ECJ recalls that the exhaustion refers to the specific tangible article into which the protected work is incorporated.\textsuperscript{218} Second, the court found that alterations on the physical means do affect exhaustion of distribution rights set out in Article 4 of the InfoSoc Directive.\textsuperscript{219} Although the issue is particularly about exhaustion of distribution rights in relation to tangible goods (namely posters and canvases), the reasoning found in \textit{AllPosters} seems to give us some clarification on matters of digital exhaustion – in so far as to reach much more cases than those concerning a mere alteration of the medium incorporating a copyrighted work.

The CJEU recalls in its reasoning both the wording of Article 4 and Recital 28.\textsuperscript{220} These dispositions should, under the ECJ’s view, be interpreted in the light of Article 6 (1) of the WIPO Copyright Treaty and the Agreed Statements concerning Articles 6 and 7 of that Treaty, which exclude from exhaustion the sale of digital goods as “the expressions “copies” and “original and copies” … refer exclusively to fixed copies that can be put into circulation as tangible objects.”\textsuperscript{221} In conclusion, “exhaustion of the distribution right applies to the tangible object into which a protected work or its copy is incorporated if it has been placed onto the market with the copyright holder’s consent.”\textsuperscript{222}

A more literal or restrictive approach towards \textit{AllPosters} might lead to the conclusion that the CJEU has avoided exhaustion of digital goods given “the connection of exhaustion to physical objects” emphasized by the CJEU.\textsuperscript{223} This opinion is shared by most of legal scholars.\textsuperscript{224} In practice, for instance, if a consumer purchases a copy of a music album and

\begin{footnotes}
\item[Ibid., pp. 14/15]
\item[Ibid., p. 40.]
\item[Ibid., p. 46.]
\item[Recital 28 of the InfoSoc Directive]
\item[C-419/13, \textit{Art & Allposters International BV v Stichting Pictoright} [2015] (ECJ), p. 39.]
\item[Ibid., p. 40.]
\item[Determann, Lothar. “Digital Exhaustion - New Law from the Old World” (06/04/2017): 15. Available at SSRN: \url{https://ssrn.com/abstract=2980483} or \url{http://dx.doi.org/10.2139/ssrn.2980483}.]
\end{footnotes}
downloads it on her computer, such copy cannot be transferred whatsoever to other medium, such as a CD or pen-drive, since this “new form” is not reached by exhaustion of distribution rights.225 That is, she “must not resell such copies if this alters their medium.”226 However, even if the medium is kept, she would still not be able to resell the digital music album because exhaustion of rights does not trigger in relation to digital goods.

Conversely, another interpretation – more moderate – may still arise from that decision. The factual background in AllPosters refers to physical products and in no way mentions digital works. A categorical affirmation on whether or not exhaustion apply for digital goods is thus still missing. Therefore, there would exist some room for digital exhaustion for works other than computer programs:

“In reality, Art & Allposters offers little support for the argument that the Usedsoft principle does not apply to works other than software. The facts upon which the two judgments are based are very different and it is important to guard against the over-interpretation of individual cases within the Court’s jurisprudence. (…) Viewed against this background, it can be seen that the Court adds nothing new on this particular question in Art & Allposters. The fact that the distribution right is described as applicable only to dealings with tangible objects does not present an obstacle to the application of the Usedsoft principle to other forms of work in future because Usedsoft was itself concerned with the distribution of a tangible copy.”227

If such moderate position prevails, however, it might have little practical significance due to the prohibition of transfer of medium. In the digital world, consumers are used to have access to digital content on many devices at the same time and to transfer them from a device to another (ex. from a computer to a smartphone). Unless consumers intend to resell the digital album with the device onto with it the work is (which seems unlikely to happen), the resale of the digital good would presuppose the transfer of medium from the seller to the buyer. Additionally, the transfer of a digital file from a device to another implies its reproduction (see Section 3.1 A above).

225 In such hypothesis, I disregard other issues that may arise, such as reproduction right infringement.
However, given the recent purposive rather restrictive approach taken by the ECJ when analyzing exceptions to copyright law,228 that court could simply avoid issues of reproduction rights infringement to allow effectiveness of the first sale doctrine (this is further addressed in Chapter 6 below).

5.4 Vob vs Stichting case: ECJ on public lending of e-books

The VOB vs Stichting case refers to the interpretation of public lending rights under the Rental and Lending Directive in the context of e-books. Even though it is not directly related to exhaustion of rights, the ECJ may have provided us with some hints on the topic.

In stating the differences between rental and public lending rights (both exclusive rights under the Rental and Lending Directive), the ECJ highlighted that the definition of “copies” for purposes of rental rights shall be construed in the light of the dispositions laid down in the WIPO Copyright Treaty.229 It follows from those dispositions that authors shall have the exclusive right of rental of the originals or copies of their works.230 These concepts of ‘originals’ and ‘copies’ should be read, under the ECJ’s view, so as to refer exclusively to tangible objects,231 as per the Agreed Statements concerning Articles 6 and 7. As a conclusion, “intangible objects and non-fixed copies, such as digital copies, are excluded from the right of rental.”232 An otherwise perspective would be in breach of the WCT, concludes the ECJ.233

By doing so, the ECJ applies the same approach found in AllPosters.234 However, while in AllPosters the factual background refers to physical copies (and the main issue was whether or not exhaustion should trigger if the work is transferred onto a new object), in VOB vs Stichting digital copies are concerned. If the same reasoning is to apply likewise to Article

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230 Article 7 of WIPO Copyright Treaty.

231 C-174/15, Vereniging Openbare Bibliotheken v Stichting Leenrecht [2016] (ECJ), p. 34.

232 Ibid.

233 Ibid., p. 39.

234 See Section 5.3.
6 of the WIPO Copyright Treaty (distribution rights), it could be assumed that the ECJ is seemingly contrary to digital exhaustion.

5.5 After UsedSoft and AllPosters: is there any room for digital exhaustion in the EU?

According to Advocate General (AG) Szpunar in Vereniging Openbare Bibliotheeken v Stichting Leenrecht, C-174/15, the issue of digital exhaustion remains open at EU level:

“I must also add that, in my view, the judgment in Art & Allposters International (26) neither calls into question nor limits in any way the conclusions which follow from the Usedsoft judgment. The former judgment concerned the transfer of a work by means of a chemical, rather than a digital process directly from one physical medium (paper) to another physical medium (canvas). It was in that context that the Court held in that judgment that, in establishing the distribution right, the EU legislature wished to give authors control over the initial marketing in the European Union of each tangible object incorporating their work, (27) whereas the replacement of the medium resulted in the creation of a new (tangible) object (28) and there could therefore be no question of exhaustion of the distribution right. (29) However, that case in no way touched upon the question of whether the distribution right could be exhausted after the transfer of ownership of a digital copy of a work.”

Indeed, no decision from the ECJ has addressed yet exhaustion of digital works other than computer programs. Therefore, opinions for and against digital exhaustion may still arise from the interpretation of the decisions issued by the ECJ. As I have previously pointed out, legal commentators in the EU still diverge on the very same topic. Some of them believe that the ECJ has definitely rule out digital exhaustion, while others hold that there may still have room for arguing that the first sale of an e-book exhausts the rights of the copyright holder to control the circulation of it. Despite considering the US scenario, Joseph Liu highlights “the commentators' failure to justify adequately why it is so important to preserve the existing distribution of rights that exists with respect to physical copies.”


in relation to commentators in the EU, as they seem not to consider further and practical implications of the avoidance of digital exhaustion in the long run.

Some may also add that is unconvincing the different treatment applied by the CJEU to software and other works. It is said under an economic perspective that despite the higher risk of abuse, there must find ways of ensuring the transmission of digital copies without infringing copyright. Suggestion that a revision of the InfoSoc should address and uniform the regulation of exhaustion of digital works.

Not only commentators, but also national courts in the EU also diverse on the very same issue. For instance, while national courts in Germany tend to avoid digital exhaustion to digital works protected under the InfoSoc Directive, a Dutch court seemed more receptive to digital exhaustion.

In Hamm Case (Higher Regional Court of Hamm - I-22 U 60/13 (2014), ZUM 2014, 715), relating to the resale of downloaded audiobooks, the Higher Regional Court of Hamm held that a contract with dispositions providing for (1) a non-transferable right for personal use, (2) in consideration of a one-time fee, (3) and prohibiting commercial use and reproduction, was enforceable. That court found that the provision of digital goods is not related to distribution rights but rather communication to the public rights, which do not trigger exhaustion. That court also held that the CJEU outcome in UsedSoft was not to be applied as it concerned exclusively to computer programs under the Software Directive, it was held. An appeal on a point of law however was not permitted and the relevant complaint was withdrawn by the plaintiff.

Two years after Oracle, the Regional Court of Berlin ruled that a sale of digital games does not trigger exhaustion. Even though games are computer programs, that court stressed that the case background differed from Oracle because the copyright owners had to

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238 Ibid.
239 Ibid., 713.
240 “According to the court, a user cannot resell the copy of a media file that she downloaded from the Internet because she does not acquire ownership and exhaustion does not result from an online-transmission of a file.” (Determann, Lothar. “Digital Exhaustion - New Law from the Old World” (06/04/2017): 12. Available at SSRN: https://ssrn.com/abstract=2980483 or http://dx.doi.org/10.2139/ssrn.2980483
243 Ibid.
244 BGH - I ZR 178/08 (2010), NJW 2010, 2661, 2662.
245 Note that games are copyrighted works protected under the InfoSoc Directive and not the Software Directive, as the ECJ decided in C-355/12, Nintendo Co. Ltd. v. PC Box Srl [2014] (ECJ).
provide continuous services to allow playability, so it was not a sale of a single game but the provision of a package of services.

In a case involving the resale of e-books, the Higher Regional Court in Hamburg ruled that Art. 4 (2) of the InfoSoc Directive only applies to tangible objects and therefore the act of downloading “was held to be making available to the public in the sense of s. 19a UhrG, which is not subject to exhaustion under the provisions of the Act.”²⁴⁶ That court also held that “[w]here digital works are resold there is an “uncontrollable secondary market and a significant risk of abuse”, contrary to the situation regarding tangible works.”²⁴⁷ Finally, that court held that the standard terms and conditions applied at stake were clear to establish that no property rights were to be assigned to consumers, so the terms applied were therefore deemed valid by the OLG in Hamburg.²⁴⁸

In contrast, in a case involving the resale of used e-books, whose facts resemble those in the US’s case ReDigi,²⁴⁹ the Amsterdam District Court authorized in preliminary proceedings the company Tom Kabinet of reselling used e-books.²⁵⁰ The Amsterdam Court of Appeals, however, turned over the decision to oblige Tom Kabinet to resell “of ebooks until the website provided for technical measures that effectively prevent sellers from uploading illegally downloaded copies.”²⁵¹ More recently, in an interim decision of July 12, 2017 on the same case, the Rechtbank Den Haag (Court of The Hague) decided that is was necessary to refer the case to the ECJ and drafted specific questions on whether or not a situations where copyrighted works made available through download (e.g. e-books) for an unlimited time “against the payment of a price equal to reasonable compensation for the copyright owner” exhausts distribution rights under Article 4 of the InfoSoc Directive.²⁵² On March 23, 2018 that court made brief amendments on the questions and referred the case to the EJC.²⁵³

Such situation demonstrates the need of the ECJ to issue a decision addressing specifically digital goods in the context of exhaustion of distribution rights. This is important

²⁴⁷ Ibid.
²⁴⁸ Ibid.
²⁴⁹ On ReDigi case, see Section 3.1 A above.
²⁵⁰ Gerechtshof Amsterdam, Case n. 200.154.572 / 01 SKG (20-07-2015).
to uniform digital exhaustion at EU level and fulfill EU principles of creation of a single and
common market between EU member-states.

6. RETHINKING THE THEORY IN THE DIGITAL WORLD

As previously mentioned in Chapter 2 above, the first sale doctrine provides for many
benefits not only for copy owners but also for society in general and these benefits are mostly
resulted from conventional understandings towards physical property ownership. In the digital
world, such benefits would be undermined if copyright owners are given unrestrained control
over digital copies. Even if a licence agreement would provide consumers with certain rights
to use a digital copy, copyright owners would still have greater control over such copy and,
more than that, could have the ability to decide whether and when to grant access – they can
simply decide not to grant licences where not desired by them.254 The consequence of that is
the centralization of control on copyright owners. In comparison with the physical world, this
is a great difference and may ultimately be against public interest. Below, I present some
considerations on exhaustion theory in the digital environment, with focus on two basic rights:
the right to access and the ability to transfer. After that, I highlight how the development of
technology and the creation new business models can lead us into new perspectives in relation
to access and use of digital works.

As pointed by Joseph P. Liu, today digital copy owners still understand to “own”
digital copies the same way they do in relation to physical copies.255 On such regard, it is
important to make sure that digital copy owners have at least clear rights in relation to access
and transfer digital files so as to maintain – or, ultimately, change – those understandings of
copy ownership and avoid increasing information and transaction costs. At the same time, “[t]o
the extent that copyright owners wish to limit a copy owner’s use of a certain copy (whether
through licensing or technology), the copyright owner will have to make such limitations
clearly express, thus ensuring that the purchaser understands precisely what it is that he or she
is purchasing.”256

If unrestrained control is given to copyright owners to digital copies, “[w]e might,
therefore, expect that such a move would raise substantial costs in terms of enforcement or in

254 Liu, Joseph P. "Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership." William and
255 Ibid., 1313.
256 Ibid., p. 1339.
terms of widespread disregard of the operative legal rule, as users will not have adequate information about precisely what it is they have acquired.”257

This seems to happen today when it comes to sales of digital content performed by the major players of digital content market through licences with supposedly defined restricted and limited uses.258 In many cases, they also make use of lock-in technologies so that consumers user access is limited to certain devices allowed by copyright owners, such as Amazon’s Kindle. Technological protection measures preventing users from carrying out certain accesses and/or transferring content to third parties are increasingly being developed and deployed by most of those players. Despite limitations on uses, consumers are at least aware of the limits and know what they can and cannot do with a digital file. At the same time, copyright owners still have considerable control over digital copies in the digital environment.

The argument raised by copyright owners that digital content is easily copied and spread over the Internet is genuine but should not be the only justification for approving an almost unlimited control over digital copies. Technological protection measures can be deployed in order to ensure that users (1) are not able to copy the content and (2) transfer it to third parties without having her own file unusable. Due to the increasing technologies we have today, that does not seem a distant future. Remember that, in the physical world, CDs/DVDs with copyrighted content or books can be fairly easily copied, raising common issues of infringement of reproduction rights. It would be unimaginable to live in a world where we would have to request the copyright holder’s authorization to give away a CD to a friend. Similarly, that is what will happen if the first sale doctrine does not extend to digital copies.

Therefore, ensuring consumers with the right of access and transfer digital content does not necessarily run afool of copyright owner interests if the privileges arising from such right are employed by consumers with the same practical result as happens today with the physical world, particularly preventing undue copying. That is, “[a]ccessing a digital copy does not, as a general matter, create a substitute for that copy; rather, it is merely a necessary step to consuming an existing copy.”259

On the same course, reproduction issues arising from accessing or transferring digital copy should not per se interfere copyright holders economic interest. If the use or transfer is

257 Ibid., p. 1323.
258 For instance, Apple allows iTunes users to download digital music, transfer them from a device to another and even burn up to seven CDs for purposes of listening to music. (See Apple Media Services Terms and Conditions, September 13, 2016. Accessed on June 3, 2018. https://www.apple.com/ca/legal/internet-services/itunes/ca/terms.html)
made e.g. in a way that allows two users have access of the content at the same time (with the creation of a new copy), that would infringe upon the copyright owner’s reproduction rights. A similar approach was applied by the ECJ in *UsedSoft* and *VOB vs Stichting* cases. The result is that, if the first sale doctrine is to apply for digital goods, access and transfer from a lawful use would not infringe upon reproduction rights of copyright holders.

### 6.1 A right to access digital copies

The notion of protecting a right to access does not come from the desire of striking a balance between access and incentives, which would seem difficult to define and achieve in very practical terms, but rather from the wish to preserve the well-established functions of that right in the physical environment, “through reducing transactions costs, facilitating distributed consumption of works, and acknowledging conventional notions and norms of property ownership.”

Having a right to access does not mean that copyright owners will not have mechanisms of safeguarding their exclusive rights. The right to access solely allows a digital copy owner to access the work the way he wants and as much as he wants. That is, the copyright owner will not have the prerogative to control when and under what circumstances the copy may be accessed.

Said that, how to implement such right in the EU, then? First, issues of infringement of reproduction rights could be broadly interpreted in accordance with the ECJ approach in in *UsedSoft* and *VOB vs Stichting*. If access is done in a way that, even though implying the copying of the work (for instance by transferring the file from the user’s PC to her smartphone), the copy user can only access the copy at one device at a time (just to allow her access), such access should not raise issues of infringement of reproduction rights. This would be in accordance with the purpose construction of exceptions by the ECJ.

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260 Ibid., 1340.

Secondly, EU copyright law does expressly foresee digital exhaustion for computer programs and do not expressly prohibit the same in relation to other copyrighted works. The same approach applied by the ECJ in *UsedSoft* in terms of recognizing digital exhaustion for computer programs should be extended to other works. Indeed, in the context of software, a broader right of access is already well-defined in order to allow the production of copies in a context involving the use of the software.

Strict interpretations on the meaning of ‘copies’ provided by Article 4 of the InfoSoc and the WIPO Copyright Treaty in terms of excluding from their scope digital copies should be avoided. Finally, in order to accomplish with EU’s goal of establishing an internal single market with harmonized and uniform between Member-States, the ECJ should recognize digital exhaustion under the InfoSoc Directive. By doing so, the ECJ would acknowledge that there are – as in fact there are – no differences between owning a digital copy of a software and a digital copy of a book:

“Extending this to all digital works would merely recognize that the same issues that exist for computer software also exist for all digital copies. Indeed, there is no reason to distinguish between bits representing software and bits representing other copyrighted materials; the same issues exist for both types of works. In both cases, ownership of a digital copy of a copyrighted work is essentially meaningless without some privilege to access or use it.”

In the context of software, a broader right of access is already well-defined in order to allow the reproduction – and in some cases alteration – of copies in a context preserving the use of the software. This could be extended then to other copyrighted works: “a similar right to copy and manipulate digital copies to the extent necessary to access and make use of them.” The reestablishment of a right to access digital works other than computer programs in the digital environment will serve to safeguard important benefits of first sale.

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264 Despite we have seen such an approach in *AllPosters*, we have stressed out before that the case did not take into consideration digital copies.
265 This can happen when the ECJ decides on the Dutch *Tom Kabinet* case (see Chapter 5.5).
267 Ibid., 1349.
6.2 A right to transfer digital copies

A right to transfer digital copyrighted works would allow digital copy owners to have basically the same rights that a physical copy owner does and fulfill certain functions existing in the today’s physical world, such as: (1) diminishing transaction and information costs, which, even if a considerably small licence fee is to be applied by copyright owners for each transaction, is not necessarily guaranteed, particularly when technical measures helping charges those small fees have yet not been established; (2) maintaining a decentralized distribution of digital works, out of the control of copyright owners, which would allow digital works to be acquired from various sources besides official distribution channels, such as secondhand stores or even a friend; (3) acknowledging current conventional understandings of digital copies ownership as digital copy owners believe today they have the same prerogatives they do when they possess a physical copy. For instance, when a consumer buys an e-book she tends to believe naturally that she is entitled to transfer the file to a friend in the case she does not want it any longer.

There are, however, some issues by virtue of the nature of digital contents. First, in the digital environment no physical property is transferred, but rather a sequence of ones and zeros into computer language. The action of transfer of a digital copy usually implies the creation of a new copy (to be accessed by the recipient), which is usable as much as the initial one possessed by the first owner. This raises issues of reproduction right infringement and may unfairly undermine the copyright owner economic interests, particularly because in the digital environment acts of transfer and copying constitute the same, that is, no difference is found between them unlike the physical world.²⁶⁸

To avoid undue copying of works in the occasion of transfer, the person transferring the copy could delete the original copy after forwarding it, case in which the transfer would be equivalent to one occurring in the physical environment. The practical effect would be the same despite the fact that a new copy was made.²⁶⁹ Technology could help accomplish that fairly easily by deploying tools to prevent undue reproduction of digital works.²⁷⁰

However, even if technological means are created accordingly, an unlimited right to transfer would still be problematic under many perspectives. First, users could not be trusted

²⁶⁸ Ibid, 1351-53.
²⁶⁹ Ibid., 1353.
²⁷⁰ “Indeed, the transaction could be completely automated by technology, so that a single push of a button could effect both transmission and deletion nearly simultaneously.” Thus, under such a rule, digital copies could be "transferred" so long as the transferor is careful to delete the original copy.” (Ibid., p. 1353)
upon in terms of deleting the original copy after transferring it ahead, which would lead to the creation of numerous additional unauthorized copies – running afoul of the copyright owner’s economic interest.  

Secondly, assuming that users effectively deleted the primary copy, it should be stressed that the sharing of digital works implies almost no cost and can be done instantaneously, unlike the transfer of physical copies (with physical limitations, such as distance). Because of that “the ease of transfer of existing digital copies in the end might well lead to a greater substitution of lending for purchasing, and have a correspondingly greater impact on copyright incentives.” So, for instance, users would opt for sharing rather than purchasing content and, ultimately, sale of digital works risks drastically decreasing. Accordingly, such situation undermines copyright owner’s incentives granted by the principles of copyright law.

These factors may suggest that “that copyright law should not recognize an unlimited right to transfer digital copies - at least not yet.” In countries where the fair use doctrine is recognized, the right to transfer may still be privileged under certain circumstances by courts. Within the scope of the European Union, a right to transfer would result from the recognition of exhaustion of distribution rights. Although the issue is not yet pacified at EU level, the ECJ should at least take into account the above-mentioned factors when issuing a decision on such regard, because, at the very least, copyright policy makers should know what is being given in if exhaustion is not triggered after the sale of digital goods.

### 6.3 New technologies, new business models, new perspectives

Almost two decades ago, Joseph P. Liu, one of the main supporters in matters of theory of digital copies ownership said that we should wait to see how market develops and “[i]f users in fact value the ability to transfer digital copies over the Internet, they can attempt to license the right from the copyright owner.” Today, new markets and technologies were developed and are constantly and rapidly changing. On the same course, consumers expectations and practices have also accompanied such changes. Many of the benefits of the first sale arise from conventional notions of physical copy ownership, but if these notions do
not endure in the digital environment in the light of new business models for copyright market and consumers reaction towards them, it can be concluded that these notions are out fashioned and exhaustion should not apply indeed.

Currently, it seems that consumers are not interested in owning digital copies, at least not in the same sense that they own a physical copy. Indeed, digital millennium users are said to desire full access of digital content, in several devices (considering that users currently employ two main devices on a daily basis, a PC and a smartphone) and at a time chosen by them, regardless of how many times the work was reproduced or copied. These are privileges not conferred by the first sale doctrine:

“Consumers are usually more focused on their ability to use digital goods on several devices (e.g., smartphone, home computer and MP3 music player), to create back-up copies in the cloud, to share ebooks, video streams and music files with family members, and to copy music libraries to upgraded hardware devices. Neither the first sale doctrine nor other provisions in copyright laws afford consumers such rights, but many suppliers of digital goods grant such rights contractually.”

Terms of use usually grant the rights that consumers are interested in and which by US or EU law would infringe rights holder. If rights holder are forced to digital exhaustion after granting reproduction rights by means of an agreement, “copyright owners may be forced to cut down on voluntarily granted reproduction rights or flee into service models clearly avoiding sales, as they have in the software space.”

Consider the example of the services provided by Spotify, one of the major players of copyright content in the market today, by means of which users have access to a myriad of copyrighted songs against the payment of a monthly fee. They have access to the content on their phones, tablets and computers (one at a time) through streaming if connected to the Internet. They also are able to access content offline by downloading the content onto the user’s device, which is only accessed through the application. That is, a copy of the song is stored onto the user’s device, but there seems to be no notion of copy ownership as users know that

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276 “Consumers are not only interested in the ability to resell digital goods, and perhaps not even primarily.” (Determann, Lothar. “Digital Exhaustion - New Law from the Old World” (06/04/2017): 23. Available at SSRN: https://ssrn.com/abstract=2980483 or http://dx.doi.org/10.2139/ssrn.2980483)
277 Ibid.
278 Ibid., 24.
279 Ibid.
despite having access no content is permitted to be transferred ahead. Additionally, Spotify users are permitted to create playlists with the songs they most like and share them with whoever they want (regardless of the type of services chosen, whether or not paid). If the playlists are public, many users can have access to them.

Price discrimination is one of the arguments held by copyright owners against digital exhaustion in the sense that they are able to charge fixed costumers and apply cheaper services for those who do not want to afford full services. However, for some scholars, price discrimination should not per se be the only reason why one should avoid the first sale as the latter does not prevent right holders from giving those benefits to their clients “by structuring transactions not as sales but as leases or subscription services.” Otherwise, for those right holders who wish to sell a copyrighted product, in perpetuity, will be subject to copyright exhaustion rules. The first sale doctrine does not necessarily prevent right holders from segregating market through contractual transactions and technological protection measures. In any case, it is not certain that price discrimination is after all beneficial to customers or just to right holders.

Spotify is one of the major players which engage in price discrimination in the provision of their services. While consumers opting for the paid version have unlimited access to the catalogue and other prerogatives (as those listed above), those who chose the free version of the services have limited access to the catalogue and are subject to ads from time to time. In fact, Spotify is today one of the biggest players, with expectations to have 150M users by 2020. Similarly is Amazon’s e-books subscription services for Kindle devices, Amazon Unlimited. By paying a monthly subscription fee, users are entitled to unlimited reading and unlimited listening to over 1M e-books and magazines on any device. Amazon applies special fees for family plans, allowing up to 6 members to have access to the entire content.

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281 Ibid.
282 Ibid.
283 Ibid.
Similar to Spotify and Amazon Unlimited are other major players, like Deezer, Apple Music, Netflix, Hulu, etc. They all provide for subscription services and lock-in technologies whereby consumers can only access but not transfer digital content. Even if consumers are not bound by a subscription model and “purchase” a digital work with no limitation of time, for instance considering the example of Apple’s iTunes, they are still bound by EULAs which limit their ability to transfer and preventing them to effectively “own” the content.

These service models allow copyright owners to remain with all rights in and to digital copies. Distribution of works in the digital environment are more than ever centralized in copyright owners. But maybe at the same level consumers have more than even had access to a massive quantity of copyrighted works, even free of charge, which means that access to copyrighted works is increasing and not decreasing as a result of these new business models.

Issues of privacy may arise from this centralized condition. Society has noticed scandals with misuse of private data. Concerns on privacy has long been seen in the EU context. In the last years a warm-up debate has taken place with the discussions on the General Data Protection Regulation, which came into force on May 28, 2018, and obliged companies established or with business in the EU to adjust their terms of services into protective rules provided by that regulation. Privacy data is still being used by the major players, so it is still necessary to keep a close eye and monitor those uses in order to avoid misuse.

Given the uncertainty on digital exhaustion for copyrighted content other than software, secondary market for “used” digital goods tend to disappear. However, given the competitive prices applied by the major players and the facility to access good quality and trustable content from them, streaming services seem to be on the top of the sources of copyrighted content, at least when it comes to music and film industries.

Last but not least, it is noteworthy that the issue on digital exhaustion is not part of any relevant policy under discussion at EU level today, according to Eleonora Rosati.

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291 Regulation on the protection of natural persons with regard to the processing of personal data and on the free movement of such data [2016] OJ 2 119.


However, for instance, in German there are initiatives concerning an equal treatment of books and e-books as the parliamentary group DIE LINKE has announced to submit a suggestion on digital lending of e-books. 294

In conclusion to the above, consumers in the digital environment have witnessed the creation of new business models, which are increasingly common and allow access to a large content of copyrighted works. At the same pace, consumers do not seem concerned in carrying property on digital goods. Henceforth, discussions on digital exhaustion has been losing strength and relevance. Therefore, rules traditionally applied to the physical world may not be the right answer to these new models.

7. CONCLUSION

As pointed out by Niva Elkin-Koren, “[d]igital networking, it is argued, may transform the way we create and exchange information, form our preferences, and define our identities.” 295 A few decades ago, consumers were only able to buy copyrighted content in the form of vinyl, CDs, DVDs, books, canvases or another physical means. These products became then their personal property and could be used and transferred almost with no restriction. But one factor, beyond any man’s will or law, limits physical goods: the action of nature. As time passes by, the book becomes worn, the CD is scratched, the vinyl breaks, to the point that they are not able to meet the prime reason for which they were made: access to a content. In that world, which still endures, the first sale doctrine was tailored to limit copyright owners’ privileges and allow the circulation of works, promoting access, preservation, privacy, transaction clarity and innovation. These are longstanding benefits promoted by the first sale, which should not be forgotten.

Today, with the advent of Internet and ever-growing technology, from a single device that fits one’s hand, a user can have access to a myriad of copyrighted digital content. Such content is not, as a matter of fact, subject to the laws of nature as suffered by physical goods. It can last throughout time. And copyright law, which has always been challenged by technology, has once again to adapt to these new situations. Reproduction issues, EULAs, TPMs are some examples of challenges faced by the first sale in the digital world and surely


other issues are yet to come. Then, lawmakers, courts, civil societies and many other interests have once again the task of adapting copyright law to these new situations, but they must bear in mind a goal which will hardly change over time: the balance between copyright holders interest and public interest.

Because the first sale doctrine helps achieving such goal, even if digital exhaustion is to be ruled out by courts or lawmakers in the EU, it should not be oblivious that there is still room for taking a position, regardless of for or against, and brings up discussions that light up the benefits that exhaustion would bring to a digital environment. It should not be taken for granted that, in the shift from a physical to a digital world, consumers will simply be fine with the loss of the first sale’s benefits, without addressing what are these benefits, why they do exist to, then and finally, decide on whether or not they should subsist in a digital economy.
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