

# The Right to Resell Digital Copies in a Post-UsedSoft Era

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# 1 Introduction

Back in 2012, there were rumours that the actor Bruce Willis was considering to sue Apple, because the EULA of the iTunes store did not allow ownership of a user's iTunes library to be transferred, since users merely have a licence on the purchased digital media.<sup>1</sup> This would effectively mean that the actor's iTunes library, reportedly worth thousands of dollars, could not be inherited by his children and that his licence on this vast collection of digital media. While the rumours were quickly dispelled by the actor's wife, it did highlight what has become a major discussion regarding physical and digital works: should intangible, downloaded works or copies thereof be regarded as a form of property of which ownership could be transferred? Moreover, what challenges does this pose for copyright and in particular the exclusive right to control distribution of works and/or copies thereof which is granted to authors? With an increasing variety of works being offered in digital formats, these questions are rapidly becoming more important, and are some of the key questions which this thesis will attempt to answer.

The current copyright regime is unfortunately far from clear for both rightholders and users. The Committee on the Internal Market and Consumer Protection already stressed "the importance of bringing more clarity and transparency of the copyright regime for copyright users" back in 2015.<sup>2</sup> The District Court in The Hague also finally wanted more clarity on the legal status of digital copies other than software. It has therefore made a preliminary reference to the European Court of Justice in 2017 in a case concerning a platform for second-hand e-books in main proceedings of the *Tom Kabinet* case, shortly after making a preliminary reference regarding the lending of e-books by libraries. With the European Court of Justice finally being asked specifically what the status of exhaustion for digitally downloaded copies of copyrighted works are, and whether they can be resold under Directive 2001/29/EC<sup>3</sup> (hereafter: InfoSoc Directive), now is a good time to try to predict what the European Court of Justice might conclude in the *Tom Kabinet* case.

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<sup>1</sup> Zack Whittaker, 'Bruce Willis to take on Apple over iTunes inheritance' (*CNET*, 3 September 2012) <<http://www.cnet.com/news/bruce-willis-to-take-on-apple-over-itunes-inheritance-updated>> accessed 23 April 2016.

<sup>2</sup> European Parliament, *Report on the implementation of Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society* (A8-0209/2015, 2015), 25.

<sup>3</sup> Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society [2001] OJ L167/10.

Furthermore, the European Commission is currently working hard on realising a so-called “Digital Single Market”, which focuses on tackling issues fragmenting the internal market for digital goods and services. A large part of digital goods and services tend to revolve around copyrighted works, such as videogames, audiovisual works, and books. The European Commission has already been fiercely antagonistic against the principle of geo-blocking, which prevents consumers from purchasing products or services from other Member States.<sup>4</sup> One of the type of products where this is particularly prevalent are copyrighted materials, with consumers for example being unable to order digital versions of videogames from another Member State, while being able to order the exact same videogame in a physical carrier from that very same Member State.<sup>5</sup> Being able to resell such digital copies within the EU may therefore open up the digital internal market as well.

It should be noted that the last couple of years have seen a rise of the popularity of online streaming services, where users are given access to a vast library of copyrighted works in exchange for a fixed fee per month. This does decrease the popularity of purchasing permanent copies of for instance music or e-books, and thereby lessen the importance of exhaustion for digital downloads to a certain degree. There are still many areas however where such services are less prevalent, and are more likely to remain so. Videogames for instance are often still mostly bought separately, perhaps due to their higher costs, performance requirements, and sheer size making them less suitable for on-demand streaming. Moreover, buying a film for example will guarantee that a consumer can continue to watch a certain film for an unlimited period of time, while films and series are regularly removed from online video streaming services due to licencing deals coming to an end. Thus, the principle of exhaustion in relation to downloaded copies of works will remain an important discussion.

In conclusion, now is perhaps the best time to revisit the issue of digital exhaustion, and to explore whether, and more importantly how, the current European copyright framework should be modernised for digitally downloaded copies of copyrighted works.

## 1.1 Research question

One of the exclusive rights granted to copyright holders within the EU is the right of distribution, which gives authors the power to authorise as well as prohibit distribution of their

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<sup>4</sup> ‘Geo-blocking: unlocking e-commerce in the EU’ (*European Commission*) <<http://www.consilium.europa.eu/en/policies/geo-blocking/>> accessed 27 November 2017.

<sup>5</sup> Natasha Lomas, ‘At last an end to geoblocking in Europe? Nope, not by a long chalk...’ (*TechCrunch*, 6 February 2018) <<https://techcrunch.com/2018/02/06/at-last-an-end-to-geoblocking-in-europe-nope-not-by-a-long-chalk/>> accessed 14 March 2018.

work to the public.<sup>6</sup> An important principle accompanying this right of distribution is the right of exhaustion, which aims to limit the amount of control a rightholder has over a work or a copy thereof after it has been placed on the internal market by him or with his consent. After the right of distribution on a copy of a work is exhausted, the buyer is able to resell his copy of the work without having to ask the rightholder for permission.

A fairly controversial discussion which has sparked up in recent years is whether the InfoSoc Directive actually allows for exhaustion of the distribution right on digital goods, because the InfoSoc Directive requires a transfer of ownership<sup>7</sup> and the preamble outright states that exhaustion does not play a role with services.<sup>8</sup> There has been a fierce debate on whether downloaded copies of copyrighted works should be viewed as goods, or as services. The European Court of Justice stated in the *UsedSoft* case<sup>9</sup> that a transfer of ownership of downloaded software, and consequently exhaustion of the rightholder's right of distribution, was possible under certain conditions. However, it based its ruling on Directive 2009/24/EC<sup>10</sup> (hereafter: Software Directive) and it is currently still unknown whether this rule could also apply for downloaded products other than software which fall under the regime of the general InfoSoc Directive.

Moreover, the question is to what extent ownership of such products could consequently be transferred if the distribution right on such products could be indeed exhausted. Are purchasers of digitally downloaded works able to resell their purchases similarly as they are able to do with physical works? After all, downloaded works technically need to be copied in order to be "transferred". These downloaded copies could in theory also be infinitely duplicated, with each copy being a "perfect copy" that is not subject to any form of degradation akin to physical copies.

The central research question of this thesis is therefore: "Since exhaustion is possible for downloaded software, is exhaustion, and consequently resale, possible for downloaded works other than software under existing European copyright law? And if not, what changes would be needed in order to accommodate for this?"

In order to answer this question, the following sub-questions will need to be answered:

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<sup>6</sup> InfoSoc Directive, Art 4(1).

<sup>7</sup> Ibid, Art 4(2).

<sup>8</sup> Ibid, Recital 29.

<sup>9</sup> Case C-128/11 *UsedSoft GmbH v Oracle International Corp.* ECLI:EU:C:2012:407.

<sup>10</sup> Directive 2006/115/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs [2009] OJ L111/16 .

- 1) What is the right of distribution and when does a transfer of ownership occur?
- 2) What happened in the *UsedSoft* case and why is this regarded as a landmark case?
- 3) Does the doctrine formulated by the European Court of Justice in the *UsedSoft* case extend to downloaded works other than software?
- 4) What changes would be needed in order to accommodate for exhaustion and consequent resale of downloaded copies of works other than software under European copyright law?

## **1.2 Methodology**

This thesis will focus on exhaustion of the right of distribution under European copyright law. As such, the main sources will be the legislation of the EU, and the case law of the European Court of Justice, as well as how certain Member States have implemented these European rules thus far. While the United States has had a similar discussion on the “first sale doctrine”, which is similar to the European principle of exhaustion, this falls outside the scope of this thesis.

## **1.3 Thesis structure**

The next chapter will be an overview of the right of distribution and its elements. More specifically, the chapter will deal with the challenges posed by the increase of intangible goods, such as digital books, music and videos. This chapter will form the basis for the following chapters, in which the thesis will further delve into the specific concept of exhaustion and its history thus far, as well as the potential resale of digital works.

Because the Dutch principle and its current European counterpart have certain similarities, the history of the exhaustion principle will partly be from a Dutch perspective. Brief attention will however also be paid to the status of the exhaustion principle in other Member States. Moreover, this chapter will discuss the current stance of the European Court of Justice on the exhaustion of distribution rights and consequent resale of copyrighted materials. In particular, the chapter will focus on the *UsedSoft* case and the stance the European Court of Justice took regarding the exhaustion and resale of software licences.

The third chapter will revolve around the aftermath of the *UsedSoft* case and the discussion whether the doctrine the European Court of Justice has formulated in the *UsedSoft* case could also extend to works other than software which fall under the regime of the InfoSoc Directive. In this chapter, attention will also be paid to national case law which have taken place after the *UsedSoft* case and how these national courts have dealt with this question thus far. As will be shown, particularly Germany has had an adamant view on the matter, while the Netherlands

has been more reluctant to take a firm stance on the matter thus far. Moreover, the District Court in The Hague has thus far made two preliminary references to the European Court of Justice regarding the legal status of e-books in relation to European copyright law. The second preliminary reference in particular, which is still pending, directly relates to the central research question of this thesis: does the *UsedSoft* doctrine extend to e-books?

The fourth chapter will look at the actual desirability of exhaustion for digitally downloaded works, as well as the possible reforms that would be needed to accommodate for it. With the European Commission currently focused on realising a Digital Single Market, now would be an ideal opportunity to perhaps reform European copyright law to be better equipped for the current and future digital technologies.

The fifth and final chapter will form the conclusion of the thesis. This chapter will summarise the previous chapters and will try to form an opinion on how likely the European Court of Justice is to extend the *UsedSoft* doctrine to downloaded works other than software, as well as the route that the European legislature should henceforth take.

## 2 Right of distribution of the exhaustion thereof

### 2.1 Introduction

One of the exclusive rights which rightholders enjoy under the InfoSoc Directive, is the exclusive right to control distribution of a protected work or copies thereof.<sup>11</sup> Effectively, this means that rightholders in principle have the ability to prevent any sale of a copy of their protected work.

One of the few limitations to this exclusive right is exhaustion, or as it is known in the US: the *first sale doctrine*. The exhaustion rule, found in Art. 4(2) of the InfoSoc Directive, kicks in when a work or a copy thereof, that has either made available on the internal market of the EU by the rightholder himself or with his consent, changes ownership within EU.<sup>12</sup> Consequently, the exclusive right to control distribution of that specific copy of the work is exhausted and will no longer apply. Or, as one author phrased quite nicely, the distribution right is “a single shot pistol and not a machine gun”.<sup>13</sup>

In the past, the European Court of Justice has ruled that the right of distribution and in particular exhaustion always require a transfer of ownership in order to be applicable.<sup>14</sup> One of the main issues regarding this concept, is whether a transfer of ownership could also occur when dealing with intangible objects, such as digital goods, or whether these are only to be regarded as a performance of services which cannot be owned or transferred.<sup>15</sup>

In the following sections, this thesis will discuss the history of and the rationale behind the exhaustion doctrine. Afterwards, the concept of ownership of digital works will be discussed, as well as the now infamous UsedSoft case.

### 2.2 History and rationale of the exhaustion doctrine

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<sup>11</sup> InfoSoc Directive, Art 4(1).

<sup>12</sup> C-479/04 *Laserdisken ApS v Kulturministeriet* [2006] ECR I-8089, para 21.

<sup>13</sup> André Lucas, ‘International exhaustion’ in Lionel Bently, Uma Suthersanen and Paul L.C. Torremans (eds), *Global Copyright: Three Hundred Years Since the Statute of Anne, from 1709 to Cyberspace* (Edward Elgar 2010), 360.

<sup>14</sup> Case C-456/06 *Peek & Cloppenburg KG v Cassina SpA* [2008] ECR I-2731, ECLI:EU:C:2008:232.

<sup>15</sup> Benedetta Ubertaini, ‘The principle of free movement of goods: community exhaustion and parallel imports’ in Irini A. Stamatoudi and Paul L.C. Torremans (eds), *EU copyright law: a commentary* (Edward Elgar 2014), 47.

### 2.2.1 National copyright laws

In the Netherlands, as noted by Verkade, the issue of international exhaustion of works and copies thereof had never been raised in a Dutch court before the developments in European copyright law.<sup>16</sup> Regarding trademark law however, the Dutch Supreme Court decided in the *Prins/Grundig* case<sup>17</sup> that there could be no confusion and therefore no trademark protection when the trademark holder had put the product on the market himself, and that trademark law was not intended to grant the trademark holder the right to control distribution channels.<sup>18</sup>

Because the Dutch Copyright Act of 1912 lacked any specific provisions on exhaustion, the solution for dealing with such cases under Dutch copyright law was found in the interpretation of two general terms found in the Copyright Act of 1912: “openbaar maken” (“to make public”) and “verveelvoudigen” (“to replicate”).<sup>19</sup> It has been noted however that the parliamentary history of the relevant legislation gave enough indications that an exhaustion principle had been intended.<sup>20</sup>

In the *Leesportefeuille* case in 1952, the Dutch Supreme Court was asked whether bundling magazines that had already been published in a folder without the consent of the rightholder constituted an illegal act of “openbaar maken”.<sup>21</sup> The Dutch Supreme Court rejected this idea, stating that by selling the magazines on the Dutch market, the plaintiffs consequently lost the right to control further distribution of those copies.<sup>22</sup> Moreover, in the *Stemra v Free Record Shop* case in 1987, the Dutch Supreme Court decided that once a copy of a work has been placed on the market with the consent of the rightholder, said copy has been made public.<sup>23</sup> This results in that further distribution of this copy cannot be considered as making said copy further public and therefore the rightholder can no longer derive any control of such further distribution.<sup>24</sup> With these judgments, the Dutch Supreme Court further cemented a principle of exhaustion in the Netherlands.

In doing so, the status of the principle of exhaustion in the Netherlands differed greatly from that in France and Belgium, which were of the opinion that rightholders had a “destination

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<sup>16</sup> Feer Verkade, ‘First-sale’ or Exhaustion Doctrine in the Netherlands’ in Bernt Hugenholtz, Antoon Quaedyvlieg and Dirk Visser (eds), *A century of Dutch copyright law: auteurswet 1912-2012* (deLex 2012), 293.

<sup>17</sup> HR 14 december 1956, *NJ* 1962, 242 (*Prins/Grundig*).

<sup>18</sup> Verkade (n 16), 294.

<sup>19</sup> *Ibid*, 295.

<sup>20</sup> Herman Cohen Jehoram, ‘Stemra-Free Record Shop’ (1989) 38 *Ars Aequi* 941, 944.

<sup>21</sup> HR 25 januari 1952, *NJ* 1952, 95 (*Leesportefeuille*).

<sup>22</sup> *Ibid*.

<sup>23</sup> *Ibid*, 945.

<sup>24</sup> *Ibid*.

right” instead of a distribution right.<sup>25</sup> In comparison to a distribution right, a destination right goes much further by allowing the rightholder to also control certain uses of the copies.<sup>26</sup> It should however be noted that a destination right could not be used to prevent resale within the “destination” market.<sup>27</sup> Consequently, rightholders were able to restrict the resale of copies from for instance France to Belgium, while such a right would have been exhausted under similar circumstances in the Netherlands.

Great-Britain on the other hand desperately tried to prevent the parallel import of cheaper copies of English books into its country from countries such as Ireland and the Netherlands.<sup>28</sup> This led to the notion that exhaustion, and international exhaustion in particular, was deemed to be all but impossible under UK copyright law.<sup>29</sup>

With many different views regarding parallel import existing within the European Union, a uniform rule for the notion of exhaustion was sorely needed.

### **2.2.2 European copyright law**

In general, the European exhaustion principle bears resemblance to the one that is found in Dutch and German copyright law. In fact, it is said that that the term “exhaustion” originates from Germany.<sup>30</sup>

Article 4(2) of the InfoSoc Directive states that:

*“The distribution right shall not be exhausted within the Community in respect of the original or copies of the work, except where the first sale or other transfer of ownership in the Community of that object is made by the rightholder or with his consent.”*

It is important to note that the main underlying rationale of the European exhaustion principle is the protection of the EU internal market. The European Court of Justice emphasised this in its *UsedSoft* judgment by recalling that “the objective of the principle of the exhaustion of the right of distribution of works protected by copyright is, in order to avoid partitioning of markets, to limit restrictions of the distribution of those works to what is necessary to safeguard

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<sup>25</sup> Ibid, 943.

<sup>26</sup> Lucas (n 13), 305.

<sup>27</sup> Christopher Stothers, *Parallel Trade in Europe. Intellectual Property, Competition and Regulatory Law* (Hart Publishing 2007), 41.

<sup>28</sup> Trevor Cook, ‘Exhaustion – a casualty of the borderless digital era’ in Lionel Bently, Uma Suthersanen and Paul Torremans (eds), *Global Copyright Three Hundred Years Since the Statute of Anne, from 1709 to Cyberspace* (Edward Elgar 2010), 354.

<sup>29</sup> Ibid, 355.

<sup>30</sup> Stothers (n 27), 41.

the specific subject-matter of the intellectual property concerned”.<sup>31</sup> Because its main goal is to protect this internal market, it therefore applies a system of “regional exhaustion”<sup>32</sup> that only applies when a copy is put on the market in a Member State by or with consent of the rightholder. Consequently, parallel trade from outside the European Union can still be prevented. The idea behind using the principle of exhaustion for this purpose is to create a secondary market for copyrighted works. Subsequently, works which have not yet been placed on the market in certain Member States could still cross borders through the resale of these works and/or copies thereof. The exhaustion principle thereby improves access to works across the internal market.

### **2.3 Ownership of downloaded works**

With technology rapidly developing and more importantly, the costs of computer storage decreasing quickly<sup>33</sup>, many works are being increasingly offered in the form of a digital download instead of a physical copy.

An important point of discussion is whether such digital downloaded copies can be owned by the buyer, or whether the access granted to this work is a service and for which ownership therefore cannot exist. As noted in the previous section, a distribution right can be exhausted after ownership of a work or a copy thereof is transferred by or with consent of the rightholder. Should a digital downloaded copy be regarded as a service however, then the distribution of said “copy” would be a form of communication to the public. Consequently, Article 3 of the InfoSoc Directive would apply, which states in paragraph 3 that:

*“The rights referred to in paragraphs 1 and 2 shall not be exhausted by any act of communication to the public or making available to the public as set out in this Article.”*

This would therefore mean that the rightholder’s rights for that copy could never be exhausted, that the buyer would never become the owner of said copy, and that it cannot be “resold” without consent of the rightholder. The notion that all digital works should be seen as services, and consequently governed under the right of communication to the public has faced its fair share of criticism however, in particular after the *UsedSoft* case.

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<sup>31</sup> *UsedSoft* (n 9), para 62.

<sup>32</sup> *Stothers* (n 27), 42.

<sup>33</sup> David Byrne, ‘Prices for Data Storage Equipment and the State of IT Innovation’ (*The Federal Reserve Board FEDS*, 1 July 2015) <<http://www.federalreserve.gov/econresdata/notes/feds-notes/2015/prices-for-data-storage-equipment-and-the-state-of-it-innovation-20150701.html>> accessed 11 May 2016.

### 2.3.1 National laws

In many countries, such as the Netherlands, ownership of property is described as the “most encompassing right” one can have over something.<sup>34</sup> It should be noted however that Dutch law states that such ownership involves goods which are physical.<sup>35</sup> And while the Dutch Civil Code deals to some extent with digital goods and consumer rights, it has explicitly excluded digitally downloaded goods, from a seller’s obligation to transfer ownership of the good.<sup>36</sup> The only exception to this per the Dutch Supreme Court is the purchase of standard software.<sup>37</sup> Effectively, this means that under Dutch law buying a digital product other than software does not lead to ownership of said product, or how one Dutch blogger has summarised it: “data is nothing”.<sup>38</sup> It is interesting to note however that lower Dutch courts in both Amsterdam and The Hague have been reluctant to exclude exhaustion for digital downloads of copyrighted works other than software in a case concerning the resale of e-books, which will be discussed in depth in the next chapter. Because exhaustion requires a transfer of ownership in order to be triggered, this means that these lower Dutch courts are also reluctant that the relevant provisions of the Dutch Civil Code may also need to be interpreted in a different manner.

### 2.3.2 EU law

The preamble of the InfoSoc Directive states that the right of distribution entails the “right to control distribution of the work incorporated in a tangible article”.<sup>39</sup> Some have interpreted this as meaning that downloaded works are therefore completely excluded from the scope of the InfoSoc Directive.<sup>40</sup> It should be noted however that AG Bot stated in his Opinion on the *UsedSoft* case that recital 28, which states that the protection granted by the InfoSoc Directive “includes the exclusive right to control distribution of the work incorporated in a tangible article”, implies that the right of distribution could perhaps also extend to other forms of distribution as well<sup>41</sup>, but at the moment it is still unclear whether the European Court of Justice

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<sup>34</sup> Burgerlijk wetboek, Art 5:1(1).

<sup>35</sup> Burgerlijk wetboek, Art 3:2.

<sup>36</sup> Burgerlijk wetboek, Art 7:5(5) jo. Art 7:9(1).

<sup>37</sup> HR 27 April 2012, ECLI:NL:HR:2012:BV1301 (*De Beeldbrigade*), para 3.6.

<sup>38</sup> Arnoud Engelfriet, ‘Ben je nou eigenaar van je gekochte ebooks of niet?’ (*Ius Mentis*, 24 March 2014) <<http://blog.iusmentis.com/2016/03/24/nou-eigenaar-gekochte-ebooks>> accessed 25 April 2016.

<sup>39</sup> InfoSoc Directive, Recital 28.

<sup>40</sup> Nicola Lucchi, *Digital Media & Intellectual Property. Management of Rights and Consumer Protection in a Comparative Analysis* (Springer 2006), 54.

<sup>41</sup> Case C-128/11 *UsedSoft GmbH v Oracle International Corp.* ECLI:EU:C:2012:234, Opinion of AG Bot, para 75.

will agree with him. However, as some have pointed out, the EU legislator used two full recitals to prevent any confusion from arising<sup>42</sup>, meaning that the odds are not quite in AG Bot's favour.

Some authors have argued however that such a strict distinction between goods and services solely on the basis of their tangibility is at least misleading.<sup>43</sup> After all, permanent control over a copy is given in certain forms of digital "distribution", and the exhaustion principle may therefore nevertheless apply.<sup>44</sup>

In a recent Opinion regarding lending of electronic books by libraries, AG Szpunar argued that "dynamic" or "evolving" interpretations of the Directives is necessary in order to ensure their effectiveness, in particular in fields such as copyright, due to technological process having such a profound effect on it.<sup>45</sup> Moreover, he argued that doing so would be consistent with the intent of the legislators, as both Directive 2006/115/EC<sup>46</sup> (hereafter: Renting and Lending Directive) and the InfoSoc Directive appear to express a desire to have copyright adapt to new technological and economic developments.<sup>47</sup> The European Court of Justice has however not addressed this issue in its judgment of *VOB v Stichting Leenrecht*, and specifically stated that the discussing the exhaustion principle as found within the InfoSoc Directive was outside the scope of the preliminary reference.<sup>48</sup> However, should the Court follow AG Szpunar's line of reasoning in the upcoming *Tom Kabinet* case as well, this would mean that digital books would have to be treated similar to their physical counterparts under all European copyright legislation. Consequently, this could lead digitally downloaded books, as well as other downloaded works, to fall within the scope of the copyright directives after all.

Moreover, the main objective of the principle of exhaustion has been said to be to avoid partitioning of the EU internal market and to limit restrictions on the distribution of works and copies thereof.<sup>49</sup> Consequently, it has been argued that the term "copy" should therefore be broadly construed, thereby also covering digitally downloaded copies, in order to meet the aims

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<sup>42</sup> Giuseppe Mazziotti, *EU Digital Copyright Law and the End-User* (Springer Science & Business Media 2008), 66.

<sup>43</sup> Andreas Wiebes, 'The Principle of Exhaustion in European Copyright Law and the Distinction Between Digital Goods and Digital Services' (2009) 58 GRUR Int 114, 115.

<sup>44</sup> Ibid.

<sup>45</sup> Case C-174/15 *Vereniging Openbare Bibliotheken v Stichting Leenrecht* ECLI:EU:C:2016:459, Opinion of AG Szpunar, para 28.

<sup>46</sup> Directive 2006/115/EC of the European Parliament and of the Council of 12 December 2006 on rental right and lending right and on certain rights related to copyright in the field of intellectual property [2006] OJ L376/28.

<sup>47</sup> *VOB v Stichting Leenrecht*, Opinion of AG Szpunar (n 45), para 29.

<sup>48</sup> Case C-174/15 *Vereniging Openbare Bibliotheken v Stichting Leenrecht* ECLI:EU:C:2016:856, para 57.

<sup>49</sup> Irini A. Stamatoudi and Paul L.C. Torremans, 'The Information Society Directive' in Irini A. Stamatoudi and Paul L.C. Torremans (eds), *EU copyright law: a commentary* (Edward Elgar 2014), 429.

of the right of distribution and to prevent such a partitioning of the internal market by means of the non-exhaustion of rights in copies of the work.<sup>50</sup>

Should the Court however disagree with these views, this would lead to a weird dichotomy, because ownership of a downloaded work, such as a videogame, would consequently not be transferrable, whereas ownership of an identical copy stored on a physical medium, such as an optical disc, would be transferrable. Effectively, buyers do not have any ownership whatsoever of any digitally downloaded works that they purchase and consequently have little to no rights regarding their purchase. This is particularly irksome with for example digital games, which are often sold by the producers themselves, such as Nintendo and Sony, at the exact same price as their physical counterparts<sup>51</sup>, or are exclusively released in the form of a digital download<sup>52</sup>. There are even instances where video game publishers made a part of a physical copy, such as a multiplayer component, dependant on a download and requiring buyers of a second-hand copy of the physical game to buy a separate licence for this portion of the game.<sup>53</sup>

Moreover, as noted by Ubertazzi, such a distinction has been criticised by many as being “ambiguous and able to allow the reintroduction of territorial restrictions in Europe and the partition of the EU internal market through technological change and party autonomy”.<sup>54</sup> Not being able to resell digital copies makes parallel import impossible, since the right to control the distribution of the copy is never exhausted. The mere fact that works or copies thereof were solely distributed through digital downloads would therefore mean that such works would not be able to be exported or imported at all and would seriously undermine one of the fundamental freedoms of EU law.

On the other hand, proponents of such a distinction often argue that digitally downloaded works are easier to reproduce works instead of transferring. A physical copy for a book for instance is more difficult to copy, because it requires the book to be copied page for page, whereas copying a digital copy generally involves just a few mouse clicks or keyboard presses.

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<sup>50</sup> Ibid, 424.

<sup>51</sup> At the time of writing, Sony’s PlayStation Store charges the same price for a digital download of the game *FIFA 18* as most retailers, such as *Mediamarkt* and *Bol.com*, charge for a physical copy. The same pricing strategy applies for Nintendo’s e-shop regarding the game *Mario Tennis Aces* for the Nintendo Switch.

<sup>52</sup> Gary Jones, ‘Sonic Mania Switch release: Nintendo version to get physical launch?’ (*Forbes*, 15 August 2017) <<https://www.forbes.com/sites/olliebarder/2017/05/31/sonic-mania-is-confirmed-for-release-this-august-and-is-priced-very-reasonably>> accessed 16 August 2017.

<sup>53</sup> Brian Crecente, ‘Game makers’ take on used game sales unclear in wake of Xbox One policy’ (*Polygon*, 9 June 2013) <<http://www.polygon.com/2013/6/9/4411410/ea-online-passes-not-coming-to-next-gen-used-game-policy-remains>> accessed 12 May 2016.

<sup>54</sup> Ubertazzi (n 15), 45-46.

Ubertazzi counters this by arguing that a copyright infringement only occurs when the number of effective available copies increases and that no infringement takes place when the seller of a digitally downloaded work is successful in transferring his file to the buyer while simultaneously erasing it from his own possession.<sup>55</sup> Should proper forward-and-delete technologies be developed, this could prove to be a strong argument for digital exhaustion, since it would allow for rightholders to have an appropriate level of protection, while consumers have the possibility of being able to resell their purchased digital copies.

## **2.4 UsedSoft: a different approach for software?**

The Court did however diverge from this approach in the *UsedSoft* case. This case dealt with software instead of works falling under the regime of the InfoSoc Directive.

### **2.4.1 Facts of the case**

The software from the applicant, Oracle, are sold on the basis of a licence agreement which allows users to download a copy of the software which they can use for an unlimited period of time.<sup>56</sup> Moreover, the case revolves around the resale of group licences which are offered by Oracle in blocks of 25 users each.<sup>57</sup>

The defendant in this case, UsedSoft, is a reseller of used software licences, including software produced by applicant Oracle.<sup>58</sup> According to the European Court of Justice, 85% of the time these used licences concern copies downloaded from the internet.<sup>59</sup> Moreover, UsedSoft also allows users to sell a part of their group licences instead of the entire group licence.<sup>60</sup> These were practices which Oracle believed to be contrary to its exploitation rights, since it was of the opinion that the distribution right could not be exhausted for digitally downloaded copies. Consequently, Oracle decided to initiate legal proceedings against UsedSoft.

While the German Bundesgerichtshof was of the opinion that the actions of UsedSoft and its customers, which is respectively the reselling and usage of second-hand software licences, infringed Oracle's exclusive rights and could not rely on the principle of exhaustion because it concerned digital downloaded software instead of software on a physical medium, it did refer

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<sup>55</sup> *UsedSoft* (n 9), para 47.

<sup>56</sup> *Ibid*, para 21.

<sup>57</sup> *Ibid*, para 22.

<sup>58</sup> *Ibid*, para 24.

<sup>59</sup> *Ibid*, para 21.

<sup>60</sup> *Ibid*, para 24.

to the European Court of Justice for a preliminary ruling, in order to confirm, *inter alia*, whether exhaustion could in principle apply to digitally downloaded software.<sup>61</sup>

#### **2.4.2 Conclusion of the European Court of Justice**

The European Court of Justice started out by stating that the term “sale” in Article 4(2) of the Software Directive “term must be regarded, for the purposes of applying the directive, as designating an autonomous concept of European Union law, which must be interpreted in a uniform manner throughout the territory of the European Union”.<sup>62</sup> It continued by stating that the term refers to a person transferring his rights of ownership “in an item of tangible or intangible property belonging to him”, and that exhaustion of the right of distribution in that copy must involve such a transfer of ownership.<sup>63</sup> It ruled that because the licence agreement gave users the right to use the copy for an unlimited period of time in return for remuneration, this meant that a transfer of ownership of the downloaded copy of software would consequently occur.<sup>64</sup>

While Oracle argued that it was merely making a copy of the software available on its website for users to download free of charge<sup>65</sup>, the European Court of Justice concluded that the conclusion of the licence agreement and the subsequent download of the software cannot be separated from one another, because they form “an indivisible whole” since downloading a copy of software is useless if the downloader does not have a licence to actually use the downloaded software.<sup>66</sup> Moreover, the argument that making a copy of software available in this manner constitutes a “making available to the public” within the meaning of Article 3(1) of the InfoSoc Directive was dismissed and therefore cannot be exhausted was dismissed, because the Software Directive is a *lex specialis* to the InfoSoc Directive, and that exhaustion of the distribution right could therefore still be triggered under the Software Directive.<sup>67</sup> The European Court of Justice concluded that the Software Directive makes it very clear that it was the intent of the EU legislature to protect both tangible and intangible copies of software, and that exhaustion should therefore also apply to digitally downloaded copies of software.<sup>68</sup> Not extending the principle of exhaustion to digitally downloaded copies “would allow the copyright holder to control the resale of copies downloaded from the internet and to demand

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<sup>61</sup> Ibid, paras 28 and 34.

<sup>62</sup> Ibid, para 40.

<sup>63</sup> Ibid, para 42.

<sup>64</sup> Ibid, paras 45-46.

<sup>65</sup> Ibid, para 43.

<sup>66</sup> Ibid, paras 43-44.

<sup>67</sup> Ibid, paras 50-51.

<sup>68</sup> Ibid, paras 57-59.

further remuneration on the occasion of each new sale, even though the first sale of the copy had already enabled the rightholder to obtain an appropriate remuneration”, which would “go beyond what is necessary to safeguard the specific subject-matter of the intellectual property concerned”.<sup>69</sup>

Regarding the resale of exhausted downloaded copies of software, the European Court of Justice stated that because the rightholder’s right of distribution has been exhausted, he therefore cannot oppose the resale of said copy.<sup>70</sup> The reseller of said copy must however make his own copy of the software unusable at the time of its resale, because he would otherwise infringe the rightholder’s right of reproduction.<sup>71</sup> The subsequent acquirer of the resold software should consequently be regarded as a “lawful acquirer” of the software within the meaning of Article 5(1) of the Software Directive, which means he is entitled to download the copy sold to him by the previous user, for a reproduction of the software is necessary in order to allow this new lawful acquirer to use the software for its intended purpose.<sup>72</sup>

One important limitation to the resale of downloaded software of which the distribution right has been exhausted is that if the software was bought as a group licence, only the entire group licence can be resold, and the initial buyer cannot divide the group licence into multiple new licences.<sup>73</sup>

### **2.4.3 Impact of the *UsedSoft* case**

To describe the *UsedSoft* judgment as a landslide case would almost be an understatement and has been hailed as a “fundamental decision on the interaction between intellectual property rights and the European single market in the online world”<sup>74</sup>, as well as “groundbreaking”<sup>75</sup>, and “revolutionary”<sup>76</sup>. Before the *UsedSoft* judgment, the mere notion that reselling downloaded software was possible was considered to be impossible, because ownership of downloaded copies could not be transferred, which meant that no distribution could take place. The *UsedSoft* judgment completely changed this by stating that a software licence for an

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<sup>69</sup> Ibid, para 63.

<sup>70</sup> Ibid, para 77.

<sup>71</sup> Ibid, para 78.

<sup>72</sup> Ibid, paras 80-81.

<sup>73</sup> Ibid, para 69.

<sup>74</sup> Christopher Stothers, ‘When Is Copyright Exhausted by a Software License? *UsedSoft v. Oracle*’ (2012) 34 *European Intellectual Property Review* 787, 790.

<sup>75</sup> Coen Drion, ‘Tweedehands software’ (2012) 1757 *NJB* 2113, 30.

<sup>76</sup> ‘HvJ: ruime uitleg wettelijke licentie - ruim baan voor tweedehands software’ (*ITenRecht*, 3 July 2012) <<http://www.itenrecht.nl/artikelen/hvj-ruime-uitleg-wettelijke-licentie-ruim-baan-voor-tweedehands-software>> accessed 3 November 2017.

unspecified period of time in combination with an adequate remuneration should be regarded as a sale, and consequently that reselling this licence was possible under certain conditions.

Nevertheless, the *UsedSoft* judgment also caused more confusion, because its scope is still unclear until this very day. After all, the Software Directive is a *lex specialis* to the InfoSoc Directive<sup>77</sup>, meaning that what applies to software does not automatically apply to other types of works as well. Consequently, the discussion on whether the *UsedSoft* doctrine extends to works falling under the regime of the InfoSoc Directive rages on. This discussion will therefore be discussed in further detail in the next chapter.

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<sup>77</sup> *UsedSoft* (n 9), para 51.

### **3 Post-UsedSoft: Does the *UsedSoft* doctrine extend to downloaded works other than software?**

#### **3.1 Introduction**

As stated at the end of the previous chapter, one of the hotly-debated topics at the moment is whether the doctrine formulated by the European Court of Justice in its judgment for the *UsedSoft* case regarding exhaustion and consequent sales of downloaded copies of software could also apply to downloaded works other than software which fall within the scope of the InfoSoc Directive.

In the following paragraphs, the arguments for why the *UsedSoft* doctrine does not extend to downloaded works other than software, as well as why it does and/or should extend to these other kinds of works will be discussed. Attention will also be paid to the stance the national courts of some Member States, such as Germany and the Netherlands, have taken in response to the *UsedSoft* judgment. Moreover, some recent judgments of the European Court of Justice as well as one of the upcoming cases will be discussed.

#### **3.2 Arguments for why the *UsedSoft* doctrine does not extend beyond software**

At the moment, looking at *inter alia* the wording of the preamble of the InfoSoc Directive, the EU appears to diverge from the *UsedSoft* approach for downloaded works other than software, due to the preamble of the InfoSoc Directive stating that the right of distribution entails the “right to control distribution of the work incorporated in a tangible article”.<sup>78</sup>

Many authors therefore think that, despite the *UsedSoft* judgment, exhaustion of the distribution right of a downloaded copy to be inconceivable under the InfoSoc Directive, as the InfoSoc Directive explicitly states that the principle of exhaustion can only apply to physical works or copies thereof.<sup>79</sup> One of the reasons for this is the nature of physical and digital goods. Unlike material goods, digital goods are non-rival goods, which means that consumption of the good by one person will not render consumption by someone else impossible.<sup>80</sup> With the

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<sup>78</sup> InfoSoc Directive, Recital 28.

<sup>79</sup> Mazziotti (n 42), 67-68; Ernst-Jan Louwers and Sabine Van Rienen, ‘One copy, one use?’ [2014] *Tijdschrift voor Internetrecht* 154, 156.

<sup>80</sup> Valérie Laure Benabou, ‘Digital Exhaustion of Copyright in the EU or Shall We Cease Being so Schizophrenic?’ in Irini A. Stamatoudi (ed), *New Developments in EU and International Copyright Law* (Wolters Kluwer 2016), 355.

transfer of ownership technically requiring an act of reproduction, the number of persons having access to the work is unforeseeable.<sup>81</sup> Nevertheless, it should be noted that the European Court of Justice stated in its *UsedSoft* ruling that although “ascertaining whether such a copy has been made unusable may prove difficult”, a copyright holder faces the same problem when distributing the work on physical media such as CDs and DVDs.<sup>82</sup>

Moreover, the European Court of Justice indicated in the *UsedSoft* case that the Software Directive is to be regarded as a *lex specialis* to the InfoSoc Directive, meaning that these criteria might not apply to other works than software by analogy. National courts, as will be shown in this chapter, have thus far interpreted this judgment in completely distinct manners. Unlike the InfoSoc Directive, which emphasises the need for a tangible article, the Software Directive is stated to apply to “the expression in any form of a computer program”<sup>83</sup>, thereby including intangible articles as well. As stated in the previous paragraph, the situation is very different for the InfoSoc Directive, which has a more limited scope, and therefore possibly could not be extended to intangible articles such as digitally downloaded copies of copyrighted works.

While the European Court of Justice has not yet taken a specific stance on whether digital copies of works other than software can be exhausted under the InfoSoc Directive, the wording of the Directive appears to lean towards a negative answer. Although the European Court of Justice did rule that ownership of downloaded software could in theory be transferred, it also noted that the Software Directive should be seen as a *lex specialis* to the InfoSoc Directive, meaning that the approach taken in the *UsedSoft* case may possibly not extend to works other than software and therefore fall under the regime of the InfoSoc Directive.

### 3.2.1 German courts

So far, national courts in Germany have been extremely hesitant to extend the doctrine formulated in the *UsedSoft* judgment to downloaded copies of works other than software.<sup>84</sup> As noted by Spedicato, while the European Court of Justice emphasises the importance of the internal market in its case law concerning the exhaustion principle, the German courts, such as the Landgericht Bielefeld, tend to take a more individualistic approach by narrowly focusing on the conflicting interests of the copyright holder and the purchaser of a digital copy of the

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<sup>81</sup> *Ibid*, 355-356.

<sup>82</sup> *UsedSoft* (n 9), para 79.

<sup>83</sup> Software Directive, Art 1(2).

<sup>84</sup> Maša Savič, ‘The legality of resale of digital content after *UsedSoft* in subsequent German and CJEU case law’ (2015) 37 EIPR 414, 427.

work.<sup>85</sup> Consequently, it is not implausible for German courts to hold different opinions than the European Court of Justice on such matters.

In fact, following the *UsedSoft* judgment, the highest federal court in Germany, the Bundesgerichtshof, gave additional instructions to the lower court, with one being that the party that has to prove that the requirements for exhaustion have been met is the one who claims exhaustion has taken place.<sup>86</sup> While at first glance this approach makes sense, because it would place the burden of proof on the person invoking the exhaustion principle, in practice it will be extremely difficult to prove that the seller does not accidentally have a copy remaining.<sup>87</sup> On the other hand, this is precisely one of the key arguments of opponents of exhaustion for digital copies.

Moreover, the Bundesgerichtshof required *UsedSoft* to prove that the second purchaser abided by the same licence agreement as the original purchaser.<sup>88</sup> By doing so, the Bundesgerichtshof severely limited the applicability of the *UsedSoft* doctrine in Germany. It could perhaps even be argued that if these requirements are not required for physical copies, that this might constitute an infringement of the principle of effectiveness, which was explained in the *Rewe* case, as meaning that Member States need to ensure that EU measures are not made excessively difficult to invoke.<sup>89</sup>

### **3.2.1.1 Downloaded videogames**

The Valve case revolved around a dispute between VBZ, a German consumer organisation, against videogame publisher Valve, about Valve's Steam platform. Steam is a platform where users can buy and play downloaded copies of videogames, and is said to be the largest online retailer of downloaded videogames, having an estimated market share of 75 percent.<sup>90</sup> The dispute centred on clauses in Valve's general terms and conditions which prohibited the transfer of Steam user accounts.<sup>91</sup> VBZ argued that the principle of exhaustion, as it was explained in the *UsedSoft* judgment, should likewise extend to videogames and therefore

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<sup>85</sup> Giorgio Spedicato, 'Online Exhaustion and the Boundaries of Interpretation' in Roberto Caso and Federica Giovanella (eds), *Balancing Copyright Law in the Digital Age* (Springer 2015), 44-45.

<sup>86</sup> Savič (n 84), 416.

<sup>87</sup> *Ibid.*, 416-417.

<sup>88</sup> Adrian Schneider, 'The end of the *UsedSoft* case and its implications for "used" software licences' (*Video.Games.Law*, 30 April 2015) <<http://gameslaw.org/the-end-of-the-usedsoft-case-and-its-implications-for-used-software-licences/>> accessed 2 February 2018.

<sup>89</sup> Case 33/76 *Rewe v Landwirtschaftskammer für das Saarland* [1976] ECR 1989.

<sup>90</sup> Cliff Edwards, 'Valve Lines Up Console Partners in Challenge to Microsoft, Sony' (*Bloomberg*, 4 November 2013) <<https://www.bloomberg.com/news/articles/2013-11-04/valve-lines-up-console-partners-in-challenge-to-microsoft-sony>> accessed 30 June 2016.

<sup>91</sup> Savič (n 84), 420.

cannot be prohibited.<sup>92</sup> The Regional Court dismissed VBZ's claim that a transfer of used videogame licences should be regarded as legitimate due to the principle of exhaustion applying to downloaded videogames based on the *UsedSoft* judgment.<sup>93</sup> The Regional Court consequently concluded that a sale did not take place, and exhaustion therefore could not occur.<sup>94</sup>

### **3.2.1.2 Downloaded e-books and audiobooks**

Another interesting case concerned a dispute involving VBZ, and an unnamed retailer who sold both physical as well as downloaded copies of works such as audiobooks and e-books, which were non-transferrable and could only be used for personal use.<sup>95</sup> Believing the terms and conditions to be unfavourable for consumers, VBZ started proceedings against the retailer arguing that based on the *UsedSoft* judgment the exhaustion principle should apply to intangible copies in the same manner as it does to tangible copies.<sup>96</sup>

In first instance, the District Court of Bielefeld argued that there were many differences between downloaded and physical copies, most notably there being no loss of quality and the ability to make perfect copies, and that exhaustion for that reason could not extend to digital works other than software.<sup>97</sup> It should be noted however that in principle a perfect copy can be made of many works enshrined on a physical medium such as a CD, and that the exhaustion principle nevertheless also applies to such copies.

On appeal, the Regional Court concluded the European Court of Justice did not provide for exhaustion of the reproduction right itself regarding downloaded copies of software in its *UsedSoft* judgment. It was the combination of exhaustion of the distribution right and the right a lawful acquirer has under the Software Directive to make a reproduction of the software without authorisation when this is necessary for using the software<sup>98</sup> which allows for the resale of downloaded software.<sup>99</sup> It concluded that the InfoSoc Directive does not contain a right for the lawful acquirer to make reproductions without prior authorisation, and that the principle of exhaustion therefore cannot be extended to works other than software.

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<sup>92</sup> Ibid.

<sup>93</sup> Ibid.

<sup>94</sup> Ibid.

<sup>95</sup> Emma Linklater, 'E-books distinguished from software, not exhausted' (2013) 8 *Journal of Intellectual Property Law & Practice* 685, 685.

<sup>96</sup> Ibid.

<sup>97</sup> Marijn Kingma, 'Reselling digital content. Are you exhausted yet?' (*Höcker Advocaten*, 11 July 2017) <<https://www.hocker.nl/en/reselling-digital-content-are-you-exhausted-yet>> accessed 18 July 2017.

<sup>98</sup> Software Directive, Art 5(1).

<sup>99</sup> Linklater (n 95), 686.

### 3.3 Why the *UsedSoft* doctrine could, or perhaps should, extend to other kinds of downloaded works

There is however a chance that the European Court of Justice does rule that ownership of digitally downloaded works could be transferred, because as AG Bot pointed out, the preamble of the InfoSoc Directive could be interpreted in such a manner that it does not exclude such a transfer of ownership taking place.<sup>100</sup>

First of all, not extending the doctrine formulated in the *UsedSoft* judgment is likely to lead to legal uncertainty, as well as a weird dichotomy regarding the rights buyers of works enjoy, depending on whether they buy the work in either a physical format or as a digital download.

Moreover, should the European Court of Justice decide to take an entirely different approach regarding works other than software than it did in the *UsedSoft* case, it would make determining whether ownership of certain complex works, such as enhanced e-books and videogames, falling under both the InfoSoc Directive as well as the Software Directive could be transferred difficult at best.<sup>101</sup> In the *Nintendo* case, the European Court of Justice itself referred to videogames as constituting complex matter, since they have a “unique creative value” which cannot be reduced to mere software.<sup>102</sup> As a consequence, parts of such complex works, such as the graphic and sound elements of a videogame, are in fact protected by the InfoSoc Directive, while the purely software side of the videogame is covered by the Software Directive.<sup>103</sup> For products like these, a situation where part of the work could in theory be exhausted while the other part cannot, will most likely lead to legal uncertainty, because it would be difficult to determine whether ownership of such works could actually be transferred.

In his recent Opinion, AG Szpunar stated that if the principle of perfect terminological consistency would have to be applied unconditionally within the field of copyright law, this would require that multiple definitions given in the *UsedSoft* case regarding the Software Directive, such as “sale”, “copy”, and “distribution”, would have to be interpreted in the exact same manner under the InfoSoc Directive and the Renting and Lending Directive as under the Software Directive.<sup>104</sup> Should this be the case, exhaustion of downloaded digital works other

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<sup>100</sup> *UsedSoft*, Opinion of AG Bot (n 41), para 75.

<sup>101</sup> Tom Ohta, ‘Exhaustion of rights (first sale doctrine): what are the broader implications of the CJEU's ruling in Art & Allposters?’ (*The IPKat*, 2015) <<http://ipkitten.blogspot.nl/2015/01/exhaustion-of-rights-first-sale.html>> accessed 14 May 2016.

<sup>102</sup> C-355/12 *Nintendo v PC Box* ECLI:EU:C:2014:25, paras 22-23.

<sup>103</sup> *Ibid.*

<sup>104</sup> *VOB v Stichting Leenrecht*, Opinion of AG Szpunar (n 45), para 50.

than software would be easily achieved, as this would allow ownership of works other than to be transferred under certain conditions and thereby exhausted.

As argued by AG Szpunar, “dynamic” or “evolving” interpretations of the directives are necessary in order to ensure their effectiveness due to technological process having such a profound effect on the field of copyright law and that doing so would be consistent with the intent of the legislators, with the directives appearing to express a desire to have copyright law adapt to new technological and economic developments.<sup>105</sup> AG Szpunar appears to believe that, albeit mainly regarding the Renting and Lending Directive, that the EU legislature did not contemplate at the time that electronic books should also be included in the directives.<sup>106</sup> Taking into account that the Internet, and consequently the concept of downloading, was still relatively in its infancy back in 2001 when the InfoSoc Directive was drafted, it is somewhat safe to assume that the EU legislature also did not take downloaded works into account when drafting the InfoSoc Directive. If the directives were indeed intended to adapt to new technological and economic developments, as suggested by AG Szpunar, interpreting the principle of exhaustion narrowly and limiting it solely to physical works and copies thereof may therefore achieve the complete opposite of what was intended by the EU legislature.

### **3.3.1 The *Tom Kabinet* cases in Amsterdam**

In the Netherlands, a prominent case following the *UsedSoft* judgment was the case regarding “Tom Kabinet”. Somewhat similar to *UsedSoft*, which allowed its users to resell their downloaded software, the website Tom Kabinet allowed users to resell their purchased e-books. As summarised by the District Court in Amsterdam, the website operated on the basis of a so-called “one copy, one use” principle and asked users to declare that they will delete their own copy of the e-book when offering this copy for sale on the website. Consequently, Tom Kabinet would generate a hash code on the basis of a combination of the owner details and the e-book, in order to ensure that this user cannot offer the same e-book for sale again. Moreover, watermarks would be added to all sold e-books, which would allow Tom Kabinet to provide publishers with information in case the sold e-book would be distributed on illegal channels, such as the infamous website “The Pirate Bay”.<sup>107</sup>

The District Court in Amsterdam started by stating that although the Software Directive was to be regarded as a *lex specialis* of the InfoSoc Directive, it could not (yet) be ruled out that the

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<sup>105</sup> Ibid, paras 28-29.

<sup>106</sup> Ibid, para 25.

<sup>107</sup> Rb. Amsterdam 21 juli 2014, ECLI:NL:RBAMS:2014:4360 (*NUV/Tom Kabinet*), para 2.4.

*UsedSoft* doctrine could extend to works other than software.<sup>108</sup> In this regard, the District Court deviates from its German colleagues who had argued that because the Software Directive was a *lex specialis* of the InfoSoc Directive, this meant that the exhaustion principle could not extend to works other than software at all. In this regard, the District Court in Amsterdam specifically responded to the applicants' argument regarding the fact that national courts in other Member States, in particular Germany, had decided that the *UsedSoft* doctrine, and thus exhaustion, did not extend to downloaded works other than software, and stated that this would not be decisive for the case at hand.<sup>109</sup> Naturally, this decision makes sense, since national courts are not bound by decisions taken by other Member States. Particularly in the field of copyright law, which is first and foremost a regional matter, many differences between Member States still exist. Moreover, the District Court concludes that Tom Kabinet aims to facilitate a second-hand market for legally acquired e-books for as much as it is able to, and that the reason it is unable to implement more extensive protection mechanisms thus far is due to the refusal of the applicants to even discuss any form of cooperation.<sup>110</sup> Should the applicants, as well as other rightholders for that matter, actively cooperate with services as Tom Kabinet, it would be easier for these kinds of intermediaries to implement better technologies to ensure removal of the copies in possession of the original acquirer.

In the end, the District Court decided that there was too much uncertainty at the time to conclude that the conduct of Tom Kabinet was wrongful, particularly considering the urgent nature of preliminary injunction procedures which does not allow it to examine a case for a lengthy period of time.<sup>111</sup> Moreover, the applicants had appeared to adamantly refuse any form of negotiation on the matter with Tom Kabinet, despite multiple attempts to do so having been made by the defendant.<sup>112</sup> Therefore, the District Court felt that granting the injunctions sought by the applicants would not be appropriate in the case at hand.<sup>113</sup> Effectively, this meant that the website was not deemed to be illegal, and that Tom Kabinet could continue its practice.

The Court of Appeal in Amsterdam agreed with the District Court that at that moment in time it could not state with absolute certainty what the scope of the *UsedSoft* doctrine was and whether it could also extend to downloaded works other than software, such as e-books.<sup>114</sup>

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<sup>108</sup> Ibid, para 4.10.

<sup>109</sup> Ibid, para 4.11.

<sup>110</sup> Ibid.

<sup>111</sup> Ibid, para 4.5.

<sup>112</sup> Ibid.

<sup>113</sup> Ibid, para 4.11.

<sup>114</sup> Hof Amsterdam 20 januari 2015, ECLI:NL:GHAMS:2015:66 (*NUV/Tom Kabinet*), para 3.5.2.

Unfortunately, this again concerned a preliminary injunction proceeding, which meant that the Court of Appeal, similar to the District Court, was bound by a relatively short time period and therefore did not have enough time to refer questions on the matter to the European Court of Justice for a preliminary ruling. Next, the Court of Appeal started to discuss the reasoning behind the right of distribution and exhaustion. By considering the economic reasoning behind the *UsedSoft* doctrine in particular, the Court of Appeal seems to indicate that it in fact expects the European Court of Justice to extend the exhaustion rule beyond the Software Directive.<sup>115</sup> In the case at hand however, the Court of Appeal decided to avoid giving a definitive answer to this question by concluding that Tom Kabinet had insufficiently rebutted the applicants' claim that the measures implemented by Tom Kabinet were not effective enough in order to prevent illegally downloaded copies from being sold through its website.<sup>116</sup> Moreover, the Court of Appeal stated that the responsibility to take adequate measures against such infringing acts will in the first place lie with Tom Kabinet, due to the website facilitating such acts. Consequently, Tom Kabinet was ordered to cease its activities.<sup>117</sup>

What is interesting about these two judgments is that the District Court as well as the Court of Appeal in Amsterdam, unlike their colleagues in Germany, did not outright reject the possibility that the *UsedSoft* doctrine could extend to downloaded works other than software. It was only due to time constraints that it did not make a preliminary reference to the European Court of Justice, and stated that it would be up to a court in main proceedings to make a preliminary reference. As shown later on in this chapter, the District Court in The Hague eventually did make such a preliminary reference during the main proceedings.

Louwers and Van Rienen have argued that the business model of sites such as Tom Kabinet, as well as for example "forward-and-delete" technologies which check whether the copy of the original owner has been rendered unusable after a transfer of ownership, are necessary due to the changing needs in society and the rise of streaming services.<sup>118</sup> At the same time however, they argue that the InfoSoc Directive has become outdated for not having taken new technologies, such as downloaded e-books, into account at the time of drafting<sup>119</sup>, and thereby reject the idea of AG Szpunar that an evolving or dynamic interpretation of the InfoSoc Directive is even an option under the current version of the InfoSoc Directive. Following this

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<sup>115</sup> Chantal Van Dam and Menno Weij, 'De strijd om de digitale lezer' [2015] *Tijdschrift voor Internetrecht* 196, 198.

<sup>116</sup> *Tom Kabinet II* (n 114), para 3.7.1.

<sup>117</sup> *Ibid*, para 4.4.

<sup>118</sup> Louwers and Van Rienen (n 79), 156-157.

<sup>119</sup> *Ibid*.

line of reasoning, a reform of legislation would be needed in order to properly accommodate for digital exhaustion for works falling under the regime of the current InfoSoc Directive.

### 3.3.2 Exhaustion for communications to the public?

According to Benabou, there have been many signs in recent case law of the European Court of Justice that a “sort of” exhaustion has been emerging regarding digital distribution of works.<sup>120</sup> She argues that in its *UsedSoft* judgment the European Court of Justice introduced doubt on the scope of the exhaustion principle by not rejecting the possibility that exhaustion could also apply to works other than software in case the communication to the public is made online, on the condition that a transfer of ownership can be characterised.<sup>121</sup> She does add however that this can only be the case “in the event of a permanent licence and when the licensee is in effective possession of a long-lasting copy of the work that is technically transferable”.<sup>122</sup> Without a permanent licence, the criteria of *UsedSoft* have not been met, meaning that no transfer of ownership has occurred. Moreover, if a licensee is either not in effective possession of a copy or unable to transfer possession of it, a sale naturally cannot take place, because he is unable to deliver the copy to the buyer.

In the *Svensson* case, the European Court of Justice concluded that providing access through a hyperlink to a protected work could in principle be qualified as a communication to the public of said work.<sup>123</sup> When this work has been made available without any access restrictions with consent of the rightholder, hyperlinking to this work does therefore not reach a “new public” and the hyperlinking is therefore not subject to prior authorisation, since it does not constitute a communication to the public under these circumstances.<sup>124</sup> Benabou compares this with exhaustion, since it appears as if the right of the rightholder has been exhausted by the first communication to the public which was made by him or with his consent.<sup>125</sup> According to her, the *Svensson* doctrine is therefore comparable with exhaustion, albeit with core differences.<sup>126</sup> Personally, I think that precisely these core differences make it difficult at best to view the *Svensson* doctrine as a sort of exhaustion of the right to control communications to the public. After all, no transfer of ownership has taken place, and the rightholder technically still has the possibility to remove that communication to the public, or to limit its scope, by for instance

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<sup>120</sup> Benabou (n 80), 360.

<sup>121</sup> Ibid, 361-362.

<sup>122</sup> Ibid, 362.

<sup>123</sup> Case C-466/12 *Svensson v Retriever Sverige AB* ECLI:EU:C:2014:76, paras 20-23.

<sup>124</sup> Ibid, paras 25-28.

<sup>125</sup> Benabou (n 80), 364.

<sup>126</sup> Ibid, 365.

taking a YouTube video offline or to introduce geographical restrictions later on. In the case of a transfer of ownership however, the right of the rightholder to control distribution of that specific copy has been exhausted. Moreover, the InfoSoc Directive specifically states that no exhaustion can occur for communications to the public<sup>127</sup>, meaning that a *de facto* exhaustion is undesirable as it would render this provision worthless. While the idea of viewing the *Svensson* doctrine as being similar to exhaustion is interesting, it would probably result in greatly overextending the intended scope of the *UsedSoft* doctrine.

### **3.4 Allposters: an indication or irrelevant for digital exhaustion?**

Some authors have argued that the European Court of Justice has perhaps already argued against an extension of the *UsedSoft* doctrine in the recent *Allposters* case.<sup>128</sup>

#### **3.4.1 Facts of the case**

The *Allposters* case concerned a dispute between Stichting Pictoright and Art & Allposters International BV. Stichting Pictoright is a Dutch collecting society and has been mandated to exploit the copyright on behalf of the rightholders by licensing and by taking (legal) actions against infringements of that copyright.<sup>129</sup> Allposters markets posters and other reproductions depicting the works of famous painters on its website, including works which are covered by the copyright exploited by Pictoright. One of its products is a so-called “canvas transfer”, where an image from a poster is transferred onto on a canvas.<sup>130</sup> Stichting Pictoright believed these canvas transfers, which took place without the consent of its clients, to be an infringement of said clients’ copyright and ordered Allposters to cease this activity.<sup>131</sup> Allposters however refused to cease its activities, and Stichting Pictoright decided to pursue legal action against Allposters.<sup>132</sup>

While the District Court of Roermond initially dismissed the legal action against Allposters, the Court of Appeal of ‘s-Hertogenbosch upheld most of Stichting Pictoright’s claims by basing its judgment on the Dutch *Poortvliet* case from 1979 and concluding that since the posters underwent a major modification during the canvas transfer process, it allowed Allposters to charge higher prices as well as reach a new target group.<sup>133</sup> It therefore rejected the defendant’s

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<sup>127</sup> InfoSoc Directive, Art 3(3).

<sup>128</sup> Maša Savič, ‘The CJEU Allposters case: beginning of the end of digital exhaustion?’ (2015) 37 EIPR 378, 381.

<sup>129</sup> Case C-419/13 *Art & Allposters International BV v Stichting Pictoright* ECLI:EU:C:2015:27, para 14.

<sup>130</sup> *Ibid*, para 15.

<sup>131</sup> *Ibid*, para 16.

<sup>132</sup> *Ibid*, para 17.

<sup>133</sup> *Ibid*, paras 18-19.

claim that the distribution right had been exhausted and that the canvas transfer had created a new publication of the work which constituted an infringement under Dutch copyright law.<sup>134</sup> When the case subsequently reached the Dutch Supreme Court, the Dutch Supreme Court decided to stay proceedings and to make a preliminary reference to the European Court of Justice whether rightholders can oppose the sale of posters of paintings if these have been transferred on a different medium, such as canvas.

The question arises whether the owners of the copyright in the paintings, who had authorised the reproduction and sale of the paintings in poster form, can oppose to the sale of the paintings reproduced on canvas, following transfer of these images from the posters to the canvases. Allposters argued that the distribution rights of the copyright owners are exhausted by the first sale of the posters on the European market with the consent of the copyright owners.

### **3.4.2 Findings of the European Court of Justice**

Both AG Cruz Villalón<sup>135</sup> and the European Court of Justice<sup>136</sup> have taken a primarily grammatical approach in the assessment of the case, by concluding that Recital 28 of the InfoSoc Directive that exhaustion can only occur in the *physical* medium in which the work or copy thereof was initially marketed on the EU internal either by the rightholder and with his consent. It consequently concluded that the object had undergone several changes, thereby creating a new copy of the work, while the original object had ceased to exist.<sup>137</sup> In this regard, “important is whether the altered object itself, taken as a whole, is, physically, the object that was placed onto the market with the consent of the rightholder”<sup>138</sup>.

In a recent judgment, the European Court of Justice clarified that somewhat similar criteria apply for software. While initial acquirers of software with an unlimited licence have the right to resell their copy, they are in fact not allowed to resell a backup of their copy without prior authorisation from the rightholder if the original physical carrier has been damaged, destroyed, or lost.<sup>139</sup>

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<sup>134</sup> Ibid, para 19.

<sup>135</sup> Case C-419/13 *Art & Allposters International BV v Stichting Pictoright* ECLI:EU:C:2014:2214, Opinion of AG Cruz Villalón, para 69.

<sup>136</sup> *Allposters* (n 129), paras 35-37.

<sup>137</sup> Ibid, para 43.

<sup>138</sup> Ibid, para 45.

<sup>139</sup> ‘Copyright Licensing and the EU Digital Single Market Strategy’ in Roger D. Blair and D. Daniel Sokol (eds), *Handbook of Antitrust, Intellectual Property and High Technology* (Cambridge University Press 2016), para 57.

### 3.4.3 Diverging opinions on the relevance of this case concerning exhaustion of downloaded works

One of the main discussions about the *Allposters* case revolves around the statement of the European Court of Justice that “exhaustion of the distribution right applies to the tangible object into which a protected work or its copy is incorporated”<sup>140</sup>.

It has been argued that since the European Court of Justice strictly limited itself to a grammatical interpretation<sup>141</sup> and thereby limiting distribution to tangible works and copies thereof, it may have ended the possibility of exhaustion for downloaded works other than software being realised under the InfoSoc Directive.<sup>142</sup> This argument is basically a repeat of the most used argument against exhaustion of downloaded works, namely that a strict grammatical approach of the InfoSoc Directive means that recital 28 prevents such an exhaustion from ever taking place.

Opponents of this interpretation of the *Allposters* case, such as Griffiths, have countered this view by arguing that the *UsedSoft* case and the *Allposters* case were based on very different facts, and that the judgment of the European Court of Justice in the *Allposters* case should not be overinterpreted.<sup>143</sup> Moreover, the District Court of The Hague concluded in the *Tom Kabinet* case that because digitally downloaded copies were not discussed in the *Allposters* case, it cannot automatically be assumed that the European Court of Justice has therefore made a decision on the exhaustion of digitally downloaded copies.<sup>144</sup> Lastly, it has to be noted that unlike in the *Allposters* case, a digital reproduction does not alter the work at all, meaning that it could be argued that it would still be the same work that the rightholder has consented to if the original downloaded copy ceases to exist.

In particular because it did not concern digital copies at all in the *Allposters* case, it is likely that this judgment will indeed not be relevant for the discussion on digitally downloaded copies of works. It is just too soon to conclude that the European Court of Justice will take the exact same approach to digital exhaustion as it would to a very different case that involved *physical* copies that were altered to such an extent that it constituted a new work.

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<sup>140</sup> *Allposters*, para 40.

<sup>141</sup> Jonathan Griffiths, ‘Exhaustion and the alteration of copyright works in EU copyright law—(C-419/13) Art & Allposters International BV v Stichting Pictoright’ (2016) 17 ERA Forum 73, 78.

<sup>142</sup> Savič, ‘The CJEU Allposters case: beginning of the end of digital exhaustion?’, 383.

<sup>143</sup> Griffiths (n 141), 78.

<sup>144</sup> Rb. Den Haag 12 juli 2017, ECLI:NL:RBDHA:2017:7543 (*NUV/Tom Kabinet*), para 5.42.

### 3.5 The European Court of Justice on digital lending

In November 2016, the European Court of Justice answered a set of questions from the District Court of The Hague regarding the *VOB v Stichting Leenrecht* case. This case concerns a test case that was started by the Dutch association of public libraries about the lending of e-books against a foundation that has been tasked with collecting remuneration for authors.<sup>145</sup> More specifically, the case revolves around the question whether the lending of e-books by libraries should fall under the regime of the Renting and Lending Directive, just as their physical counterparts do. Since both this case and the upcoming *Tom Kabinet* case revolve around the exhaustion of e-books and both Tom Kabinet as well as the libraries involved operate on the basis of a “one copy one use” principle, this case may give a better indication of the approach that the European Court of Justice could take in the *Tom Kabinet* case.

Regarding the exhaustion principle as it is found in the InfoSoc Directive, the European Court of Justice concluded that this provision was not relevant for the interpretation of the Renting and Lending Directive.<sup>146</sup>

This further highlights the odd predicament European copyright law is currently facing. Whereas exhaustion is possible for software under the Software Directive, and e-books are treated in the same manner as their physical counterparts under the Renting and Lending Directive, they are at the moment still treated completely differently under the general InfoSoc Directive.

### 3.6 Tax case law

In a preliminary reference proceeding regarding the VAT rates of e-books, the European Court of Justice ruled that e-books, unlike their physical counterparts, did not qualify for lower VAT rates.

Just recently, the European Parliament voted with an overwhelming majority to allow lower VAT rates for e-books within the EU<sup>147</sup>, enabling Member States to reconcile one of the key differences that currently exists between physical books and e-books. This shows a willingness, at least from the European Parliament, to diminish the number of differences between physical books and e-books. Moreover, many delegations expressed their support for the proposal during the discussion held at a technical level, as the proposal is seen as an instrument to

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<sup>145</sup> ‘Juridische procedure e-lending’ (*Stichting Leenrecht*, 20 January 2017) <<http://www.leenrecht.nl/nl/Juridische-procedure-e-lending?page=2>> accessed 1 March 2017

<sup>146</sup> *VOB v Stichting Leenrecht* (n 48), paras 56-57.

<sup>147</sup> European Parliament, ‘Reducing VAT on e-books, to match printed book rates’, 20170529IPR76238.

enhance the Digital Single Market.<sup>148</sup> With the Digital Single Market strategy currently being one of the Commission's key targets, it is likely that the Commission will continue trying to make lower VAT rates possible for digital publications. On June 16<sup>th</sup>, 2017 however, the Council was unable to reach an agreement on the proposal, since unanimity on the matter could not be achieved.<sup>149</sup> During the meeting, the Czech Republic had raised several concerns, such as potential VAT fraud, and blocked the proposal.<sup>150</sup>

E-books will therefore still be treated differently than their physical counterparts for the time being, which unfortunately also paints a bit of a grim picture for the exhaustion of e-books, since the Council is still willing to treat digitally downloaded books differently than their physical counterparts. Nevertheless, this does not automatically mean that the European Court of Justice will follow the same line of reasoning in the field of copyright law. As stated by the District Court of The Hague, this was after all a case concerning fiscal law, and the European Court of Justice still has not answered the question whether the right of distribution and the exhaustion thereof found in the InfoSoc Directive are also applicable to e-books.<sup>151</sup> So while at a first glance this case paints a rather grim picture for the exhaustion principle being applicable to downloaded copies, it does not rule out the possibility completely. Moreover, in the aftermath of this case, the European Parliament has shown to be in favour of removing the differences between physical books and their digital counterparts. This may prove to be of great importance in the future, should the Commission decide to tackle the issue of ownership of downloaded copies under the flag of their Digital Single Market strategy.

### 3.7 Tom Kabinet III

In the same year as the ruling of the Court of Appeal in Amsterdam in the *Tom Kabinet* case, the publishers started main proceedings against *Tom Kabinet* at the District Court of The Hague, seeking a declaratory judgment regarding the disputes concerning copyright law.<sup>152</sup> During the hearing, Tom Kabinet argued that e-books should in fact be seen as software, which would therefore make it possible for its distribution right to be exhausted according to the *UsedSoft* doctrine.<sup>153</sup> Applicant NUV's main argument however focuses on Tom Kabinet being

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<sup>148</sup> Council of the European Union, 'Proposal for a Council Directive amending Directive 2006/112/EC, as regards rates of value added tax applied to books, newspapers and periodicals', 10040/17, 1.

<sup>149</sup> Council of the European Union, *Outcome of the Economic and Financial Affairs Council meeting n°3549* (2017), 4.

<sup>150</sup> 'EU fails to agree on e-Book reduced VAT' (*VATlive*, 16 June 2017) <<http://www.vatlive.com/vat-news/eu-fails-to-agree-on-e-book-reduced-vat/>> accessed 16 June 2017.

<sup>151</sup> *Tom Kabinet III* (n 144), para 5.44.

<sup>152</sup> Van Dam and Weij (n 115), 202.

<sup>153</sup> Patrick Schreurs, 'Mag je tweedehands e-books verkopen?' (17 December 2015) <<http://blog.patschreurs.nl/mag-tweedehands-e-books-verkopen/>> accessed 27 June 2016.

unable to prove that sellers have made their own copies unusable<sup>154</sup>, meaning that even if e-books were to be regarded as software, the criteria of the *UsedSoft* judgment have not been met by Tom Kabinet.

It should be noted that applicant NUV specifically requested the District Court to not make a preliminary reference to the European Court of Justice, while Tom Kabinet only wishes a preliminary reference to be made if the District Court does not believe that e-books should be regarded as software.<sup>155</sup> Moreover, Tom Kabinet asks the District Court itself to make the preliminary reference and not wait for a higher court to do this instead.<sup>156</sup> On July 12<sup>th</sup> 2017, over a year later than it originally intended to rule on the case<sup>157</sup>, the District Court of The Hague announced that it has decided to make a preliminary reference to the European Court of Justice.<sup>158</sup>

The questions<sup>159</sup> referred to the European Court of Justice are as followed<sup>160</sup>:

- 1) Should Article 4(1) of the InfoSoc Directive be interpreted that "in respect of the original of their works or of copies thereof (...) any form of distribution to the public by sale or otherwise" also refers to making e-books remotely available for an indefinite period of time in the form of downloads (with those e-books being digital copies of works protected by copyright) at a price giving the rightholder a remuneration corresponding to the economic value of the copy of the work?
- 2) If the first question is to be answered in the affirmative, is the distribution right with regard to the original or copies of a work exhausted within the meaning of Article 4(2) of the InfoSoc Directive, if the first sale or another transfer of ownership of said material, includes making e-books remotely available for an indefinite period of time in the form of downloads (with those e-books being digital copies of works protected by copyright) at a price giving the rightholder a remuneration corresponding to the economic value of the copy of the work, in the Union is made by the rightholder or with his consent?

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<sup>154</sup> Ibid.

<sup>155</sup> Ibid.

<sup>156</sup> Ibid.

<sup>157</sup> Ibid.

<sup>158</sup> *Tom Kabinet III* (n 144).

<sup>159</sup> Ibid, para 5.49.

<sup>160</sup> Rough translation made by myself.

- 3) Should Article 2 of the InfoSoc Directive thus be interpreted that for a lawful transfer between the subsequent acquirers of the copy of which the distribution right has been exhausted, a consent for the reproduction act referred to is given, provided that such reproduction acts are necessary for the lawful use of that copy?
- 4) Should Article 5 of the InfoSoc Directive thus be interpreted as meaning that the rightholder can no longer oppose the reproduction acts necessary for a lawful transfer between the subsequent acquirer of the copy of which the right of distribution has been exhausted?

The questions mainly ask whether exhaustion is at all possible for downloaded copies under the InfoSoc Directive, and consequently whether it is possible to lawfully transfer such a copy without violating the rightholder's right to oppose unlawful reproductions of his work, because the copy that is made is merely a temporary act of reproduction. The European Court of Justice is also essentially being asked whether Article 2 and 5 of the InfoSoc Directive are to be interpreted in a similar manner as Article 5 of the Software Directive, thereby allowing a lawful subsequent acquirer of a resold licence to legally obtain a copy of said work if the initial acquirer deletes his copy of the work.

The reasoning of the District Court in *The Hague* has been criticised by Seignette, who calls it a “remarkable conclusion” of the District Court that it does not constitute a communication to the public.<sup>161</sup> According to her, whether or not an act constitutes a communication to the public is based on whether the service is open to everyone, and that the book could *potentially* be requested by an indefinite number of persons.<sup>162</sup> She particularly criticises the fact that the District Court did not make a preliminary reference on this matter.<sup>163</sup>

Moreover, she believes that *Tom Kabinet's* argument that a transfer of ownership occurs to be based on a “legal fiction”, because a digital copy is not automatically deleted when it is downloaded or sold.<sup>164</sup> This did not however prevent the European Court of Justice from concluding in the *UsedSoft* case that a transfer of ownership could therefore never take place.<sup>165</sup>

Lastly, she argued that the remuneration for software is based on different factors than books, because for software it is based on repeated and continuous use, while for books it is based on

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<sup>161</sup> Jacqueline M.B. Seignette, ‘NUV/Tom Kabinet’ (2018) [1] *Intellectuele Eigendom en Reclamerecht* 16, 29.

<sup>162</sup> *Ibid.*

<sup>163</sup> *Ibid.*

<sup>164</sup> *Ibid.*

<sup>165</sup> *UsedSoft* (n 9), paras 44-46.

a book being read once or a few times.<sup>166</sup> It should be noted however that the European Court of Justice stated in the *Premier League* case that a rightholder is merely entitled to an *appropriate* remuneration, and not the highest possible remuneration.<sup>167</sup>

It is also perhaps interesting to note that while the *UsedSoft* doctrine states that a bundle of licences cannot be “split” when reselling the software, the District Court of The Hague fails to mention a similar situation for works falling under the InfoSoc regime. In particular with digital games and books, it is not uncommon for them to be sold as a bundle. An example of this could be seen on the website *HumbleBundle.com*, where for instance games or books are sold as one bundle for a lower price than usual, with the proceeds going to one or more charities. It remains to be seen whether the European Court of Justice does pay attention to such situations, or if such a rule will not exist for downloaded copies of works other than software.

At the moment, this case could really go either way. On the one hand the European Court of Justice may have its hand tied behind its back if it takes a strict grammatical approach of the InfoSoc Directive. As shown in the *Allposters* case, the European Court of Justice has taken such an approach in the past. Moreover, it would be difficult for the European Court of Justice to deviate from the wording of the InfoSoc Directive if excluding downloaded copies from the exhaustion principle was indeed the intent of the European legislature.

On the other hand, the *Allposters* case concerned a very different subject-matter. Moreover, the European Court of Justice has shown in the *UsedSoft* case and the *VOB v Stichting Leenrecht* case that it was willing to treat downloaded software and e-books the same as their tangible counterparts. It would be odd to say the least if such works are suddenly treated differently simply because a different directive is applicable. Moreover, AG Szpunar specifically has argued that a dynamic or evolving interpretation of European copyright law is necessary to ensure their effectiveness, and has implied that it may not have been the intention of the European legislature at all to exclude downloaded copies of works from the scope of the exhaustion principle. It is therefore also not unlikely for the European Court of Justice to indeed continue the trend it has started in the *UsedSoft* case and the *VOB v Stichting Leenrecht* case.

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<sup>166</sup> Seignette (n 161), 30.

<sup>167</sup> Joined cases C-403/08 and C-429/08 *Football Association Premier League Ltd v QC Leisure* ECLI:EU:C:2011:631, para 108.

## 4 The desirability of digital exhaustion under European copyright law and the changes needed in order to accommodate for it

### 4.1 Introduction

While it is still unclear at this moment in time as to how the European Court of Justice will decide on the question whether exhaustion is possible for downloaded works other than software under the current InfoSoc Directive, the question whether the InfoSoc Directive should be revised so it is able to better withstand the test of time has also arisen.<sup>168</sup>

In his recent Opinion on the *VOB v Stichting Leenrecht*, AG Szpunar was of the opinion that the EU legislature in fact did not consider the inclusion of works such as e-books at the time of drafting the Renting and Lending Directive<sup>169</sup>, and therefore most likely also not when drafting the InfoSoc Directive. By not taking such developments into account, the InfoSoc Directive has become outdated by now.<sup>170</sup>

Moreover, with works being increasingly offered as a digital download, clearer guidelines on how to deal with such copies are now more necessary than ever before. In fact, more and more computers are no longer even equipped with the ability to read optical media<sup>171</sup>, thus forcing users to resort to digitally downloaded copies instead. These users are currently still stuck in a legal limbo, due to conflicting practices depending on whether the work is classified as software or as a work falling under the regime of the InfoSoc Directive.

As noted by Martin-Prat, while copyright law has always been adapted to changes, the rate at which technology is currently developing, as well as the manner in which they appear to challenge some of the concepts on which copyright legislation is based, seems to be unprecedented.<sup>172</sup> While AG Szpunar believed that both the Renting and Lending Directive and the InfoSoc Directive expressed a desire to adapt to new technological and economic developments<sup>173</sup>, and that therefore a dynamic or evolving interpretation of these directives is

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<sup>168</sup> Maria Martin-Prat, 'An Introduction – The EU Copyright Agenda' in Irini A. Stamatoudi (ed), *New Developments in EU and International Copyright Law* (Wolters Kluwer 2016), 181-182.

<sup>169</sup> *VOB v Stichting Leenrecht*, Opinion of AG Szpunar (n 45), para 25.

<sup>170</sup> Louwers and Van Rienen (n 79), 156-157.

<sup>171</sup> Jan Willem Aldershoff, 'Report: SSD market doubles, optical drive shipment rapidly down' (*Myce*, 5 February 2014) <<https://www.myce.com/news/report-ssd-market-doubles-optical-drive-shipment-rapidly-down-70415>> accessed 2 June 2017.

<sup>172</sup> Martin-Prat (n 168), 181.

<sup>173</sup> *VOB v Stichting Leenrecht*, Opinion of AG Szpunar (n 45), 29.

necessary<sup>174</sup>, he also cannot deny that the directives have therefore already become outdated and that merely “a dynamic or evolving interpretation” of the directives<sup>175</sup> may be wholly insufficient.

The Commission has announced that it wishes to modernise the EU copyright framework with its Digital Single Market strategy. In its Digital Single Market Strategy, the Commission “identified digital content as one of the main drivers of growth in the digital economy”.<sup>176</sup> Despite this, rightholders of digitally downloaded works are currently still essentially being given free reign, with digitally downloaded copies being treated completely differently than their physical counterparts, and the rightholders remaining in control over all downloadable copies. Hojnik views the Commission’s Digital Single Market Strategy as an opportunity “for an EU-wide discussion on importance of copyright, single market, culture, environmental and consumer protection in the digital era and how the established rules in these domains suit digital goods”.<sup>177</sup> It is interesting that the term “digital goods” is used here, as many opponents of digital exhaustion deem these two words to be wholly incompatible. Nevertheless, it is indeed time for this discussion to take place.

According to Martin-Prat, what is required for the proper functioning of this Digital Single Market is what will define what the next steps will be in the field of European copyright law.<sup>178</sup> So what should these steps be? In the next sections of this chapter, the desirability of digital exhaustion will first be discussed, followed by potential reforms that would be needed in order to accommodate for it.

## **4.2 The desirability of digital exhaustion**

Naturally, one of the first questions that will arise whether it is actually desirable to extend the exhaustion principle to digitally downloaded works.

The most heard argument from opponents of digital exhaustion is the argument that it will enable users to *en masse* “sell” their copies, while still keeping a perfect copy for themselves, thereby depriving rightholders of their appropriate remuneration. While of course there will always be users with ill intentions, this should not be a reason to deprive many users with good

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<sup>174</sup> Ibid, 28.

<sup>175</sup> Ibid, paras 28-29.

<sup>176</sup> European Commission, 'Promoting a fair, efficient and competitive European copyright-based economy in the Digital Single Market', COM (2016) 592 final, 2.

<sup>177</sup> Janja Hojnik, 'Technology neutral EU law: digital goods within the traditional goods/services distinction' [2017] International Journal of Law and Information Technology 63, 84.

<sup>178</sup> Martin-Prat (n 168), 186.

intentions as well. The perfect copy argument is also far from new, and dates back at least until the 1980s and the introduction of digital audio tapes.<sup>179</sup> This has not however prevented the exhaustion principle from being extended to copies enshrined in for instance a CD, DVD, or Blu-ray. Moreover, with new technology being constantly developed, there is a significant chance that proper forward-and-delete technologies will soon be developed. Should such a technology be implemented, the risks of unauthorised copies remaining in possession of the seller will thus largely be mitigated. And because the total number of effective copies does not increase, the seller will still be adequately remunerated.

Moreover, in many cases, the downloaded copy is practically identical to its physical counterpart. This is particularly prevalent in the market for video games, where the disc accompanying it is merely used to activate the game on an online platform such as Steam or Origin, and afterwards never needed again. It will therefore be difficult to explain to consumers that for instance their digitally downloaded game is treated wholly different than an exact same copy bought on physical media for the exact same price.

Another problem with the current regime is that since the copies are treated as services instead of goods, users cannot claim any rights to their copy. This means that for instance the server on which the copies are hosted could be taken offline<sup>180</sup>, or the copy could be altered without the user's consent<sup>181</sup>. Benabou concludes that European copyright law has erroneously supposed that "the general definition of the right of communication to the public encompasses all forms of online distribution of a work", despite the economic impact differing greatly depending on the type of distribution and the type of use granted to the user.<sup>182</sup> It is indeed true that there are fundamental differences between for instance the purchase of a song on iTunes in exchange for a one-time fee, and a monthly subscription to an online music streaming service such as Spotify. And these should therefore not be treated exactly the same. By not regarding certain types of digital downloads as a form of distribution, and consequently not extending the exhaustion principle, would therefore mostly harm consumers, which definitely should not have been the legislature's intended goal.

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<sup>179</sup> Jordan Demetris, 'The challenge of introducing digital audio tape technology into consumer markets' (1990) 12 *Technology in Society* 91, 91.

<sup>180</sup> Ashley Oh and Michael McWhertor, 'Wii Shop Channel closing down in 2019' (*Polygon*, 2017) <<https://www.polygon.com/2017/9/29/16386918/wii-shop-channel-closing-nintendo>> accessed 29 September 2017.

<sup>181</sup> Tom Sykes, 'GTA: San Andreas Steam update removes songs, resolution options' (*PC Gamer*, 9 November 2014) <<http://www.pcgamer.com/grand-theft-auto-san-andreas-steam-update-removes-songs-resolution-options/>> accessed 28 June 2017.

<sup>182</sup> Benabou (n 80), 369-370.

Lastly, the current copyright regime is, as Benabou described it, schizophrenic.<sup>183</sup> Should the European Court of Justice dismiss the notion of digital exhaustion under the InfoSoc Directive, while still maintaining that it does extend to software, then this would be for completely arbitrary reasons.

### **4.3 Digital exhaustion under the InfoSoc Directive**

The shortest answer as to how digital exhaustion could be achieved under the InfoSoc Directive is the removal of references to the tangibility of the copy in the context of distribution acts.

At this moment in time, there is still too much uncertainty regarding the legal status of digital distribution of works following the *UsedSoft* case. Whereas many have argued that it was the intend of the EU legislature not to include exhaustion for downloaded works under the regime of the InfoSoc Directive<sup>184</sup>, it has also been countered that these new forms of works had not been taken into consideration at the time.<sup>185</sup> Moreover, prior to the *UsedSoft* judgment, it was widely believed that exhaustion was also not possible for downloaded software.

In its Communication "Towards a modern, more European copyright framework", the Commission acknowledged that a more European framework is required "to overcome fragmentation and frictions within a functioning single market".<sup>186</sup> The dichotomy between downloaded copies versus physical copies of works and how they are currently treated under the current copyright framework could be seen as such a fragmentation. Either way, a definitive answer to the question whether exhaustion is possible for such downloaded works is needed.

Benabou argues that digital exhaustion should be possible when the criteria of analogue exhaustion can be transposed, meaning that when the user "has acquired the 'ownership' of a permanent copy of the work against appropriate remuneration to the rightholder for this permanent use", and that this should only apply if the transfer of this file does not increase the number of effective copies, and the number of users.<sup>187</sup>

### **4.4 Digital downloads as goods, services, or a *sui generis* definition?**

The problem is that defining downloaded copies as either goods or services is too straightforward and does not take into account all the characteristics a digitally downloaded copy may have. Even the Commission acknowledged that there still is much unclarity at the

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<sup>183</sup> Ibid, 351.

<sup>184</sup> Lucchi (n 40), 71-73.

<sup>185</sup> *VOB v Stichting Leenrecht*, Opinion of AG Szpunar para 25; Mazziotti (n 42), 68-69.

<sup>186</sup> European Commission, 'Towards a modern, more European copyright framework', COM (2015) 626 final, 2.

<sup>187</sup> Benabou (n 80), 377-378.

moment regarding which online acts should be regarded as a communication to the public within the meaning of the InfoSoc Directive.<sup>188</sup> According to the Commission, this creates uncertainty in the market as well as for ordinary internet users.<sup>189</sup> It is therefore necessary to address this issue.

According to Snell, “services can be distinguished from goods by virtue of their non-material character”.<sup>190</sup> That would be in line with what many opponents of extending the *UsedSoft* doctrine often argue as well. Moreover, he concludes that the definition of services in the TFEU implies that they are a residual category, and that the articles relating to the free movement of services “are only relevant if no other Treaty provisions apply”<sup>191</sup>. However, since classifying digitally downloaded works as a service will mean that exhaustion would not be possible for such copies, this is therefore undesirable.

Hojnik has argued that it might be safer to treat digitally downloaded works as a *sui generis* legal category instead of classifying them as either goods or services.<sup>192</sup> This would certainly be a viable option, since digital copies are distributed in a variety of different manners. While for instance an iTunes download could constitute a transfer of ownership, “downloading” a song through an online music streaming service such as Spotify does not allow a user to access the copy after terminating his subscription, and does therefore not constitute a transfer of ownership. Moreover, it remains to be seen whether the remuneration an artist on Spotify receives per stream is sufficient to be considered an appropriate remuneration.

## 4.5 Right of reproduction

Unlike the Software Directive, the InfoSoc Directive currently does not contain a provision akin to the “lawful acquirer” principle within the meaning of Article 5(1) of the Software Directive, which entitles the subsequent acquirer of a resold downloaded copy to download the copy sold to him by the previous user, because a reproduction of the software is necessary in order to allow this new lawful acquirer to use the software for its intended purpose. To remedy this issue, the District Court in The Hague has asked the European Court of Justice whether Article 5(1) of the InfoSoc Directive, which allows temporary acts of reproductions to be made in order to enable either “a transmission in a network between third parties by an

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<sup>188</sup> COM (2015) 626 final (n 186), 9.

<sup>189</sup> *Ibid*, 9.

<sup>190</sup> Jukka Snell, *Goods and Services in EC Law: A Study of the Relationship Between the Freedoms* (Oxford University Press 2002), 9.

<sup>191</sup> *Ibid*, 7.

<sup>192</sup> Hojnik (n 177), 83.

intermediary”<sup>193</sup>, or “a lawful use”<sup>194</sup>. This is certainly an option, due to the number of effective copies not being increased if the seller removes his copies, and the subsequent acquirer needing to download a copy of the sold work in order to actually use a copy that is lawfully his. Moreover, the act of reproduction is necessary in order to transfer the copy, and will be incidental due to it only being needed for the transfer of ownership.

Nevertheless, implementing a lawful acquirer principle akin to the one in the current Software Directive may perhaps be a safer alternative, because it does not impose the requirement that the reproduction is temporary, and transient or incidental. The Software Directive only requires that the reproduction is necessary for the use of the software by the lawful acquirer<sup>195</sup>, which is a far smaller hurdle to jump for end-users.

#### **4.6 Complex or ambiguous works**

Another important topic which has not been clarified thus far is how to deal with complex works, such as videogames. According to Stamatoudi, videogames predominantly qualify as software as well as audio-visual works.<sup>196</sup> Stamatoudi consequently concludes that both the software and the audio-visual components of videogames should be assessed separately, and should both of these components meet the requirements that the video game should be granted copyright protection both as software and as an audio-visual work.<sup>197</sup> In the *Nintendo* case, the European Court of Justice confirmed that videogames are not purely software and are covered by both the InfoSoc Directive and the Software Directive.<sup>198</sup>

The question on how these complex or ambiguous works should be treated is particularly relevant even if the EU legislature should decide to not provide for any form of exhaustion for downloaded works in the successor to the InfoSoc Directive, since a part of the work could in principle be exhausted and subsequently resold since it falls under the Software Directive, whereas the part of the work falling under the regime of the InfoSoc Directive cannot.

Because such situation would create far too much legal uncertainty, in particular for consumers, and thereby making compliance even more difficult, clarification is most definitely needed. Should the EU legislature decide not to provide for exhaustion for downloaded works other

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<sup>193</sup> InfoSoc Directive, Article 5(1)(a).

<sup>194</sup> Ibid, Article 5(1)(b).

<sup>195</sup> Software Directive, Article 5(1).

<sup>196</sup> Irini A. Stamatoudi, *Copyright and Multimedia Products. A Comparative Analysis* (Cambridge University Press 2002), 174.

<sup>197</sup> Ibid, 178.

<sup>198</sup> *Nintendo* (n 102), paras 22-23.

than software, it might in theory make it a lot more difficult for “regular” software as well. The majority of software has a graphical user interface, often referred to as a “GUI”, which allow users to navigate and interact with the software more easily. The problem is the European Court of Justice confirmed in the *Softwarová* case that while a GUI cannot be protected under the Software Directive, the design of such a GUI could be protected under the InfoSoc Directive.<sup>199</sup> Since the GUI of software can thus only be protected under the regime of the InfoSoc Directive, there is a significant risk that it thereby blocks the exhaustion of downloaded software, despite the criteria of the *UsedSoft* judgment having been met. Consequently, this could render the *UsedSoft* judgment useless in most cases.

The safest route is therefore to determine the classification on the main subject of the work. In software, this means that the GUI should only be regarded as ancillary to the program itself, while an e-book or an album on iTunes mainly revolves around the actual work instead of the underlying code. The latter would also be the case with video games, because the main selling point of video games are their storyline and/or gameplay, not the functions that it can serve.

#### **4.7 Level of harmonisation**

The Commission acknowledged in its Communication “Towards a modern, more European copyright framework” that a full harmonisation of European copyright law requires substantial changes and that areas which currently fall under the autonomy of Member States would have to be harmonised.<sup>200</sup> In particular, the Commission states that inconsistent case law would have to be prevented and that a single copyright jurisdiction with its own tribunal may have to be created.<sup>201</sup> It therefore appears that at least the Commission is in favour of further harmonising European copyright law, thereby removing the procedural autonomy Member States currently enjoy. It remains to be seen however if Member States are willing to relinquish more of their national autonomy concerning copyright.

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<sup>199</sup> C-393/09 *Bezpečnostní softwarová asociace – Svaz softwarové ochrany v Ministerstvo kultury* [2010] ECR I-13971, para 50.

<sup>200</sup> COM (2015) 626 final (n 186), 12.

<sup>201</sup> *Ibid*, 12.

## 5 Conclusion

The central research question of this thesis has been as follows:

“Since exhaustion is possible for downloaded software, is exhaustion, and consequently resale, possible for downloaded works other than software under existing European copyright law? And if not, what changes would be needed in order to accommodate for this?”

In order to answer this question, the following paragraphs will discuss the multiple elements of this research question. Afterwards, some additional aspects regarding the subject will be discussed.

### 5.1 What is the right of distribution and when does a transfer of ownership occur?

The preamble of the InfoSoc Directive states that the right of distribution entails the “right to control distribution of the work incorporated in a tangible article”.<sup>202</sup> Some have interpreted this as meaning that downloaded works are therefore completely excluded from the scope of the InfoSoc Directive.<sup>203</sup> It should be noted however that AG Bot stated in his Opinion on the *UsedSoft* case that recital 28, which states that the protection granted by the InfoSoc Directive “includes the exclusive right to control distribution of the work incorporated in a tangible article”, implies that the right of distribution could perhaps also extend to other forms of distribution as well<sup>204</sup>. However, as some have pointed out, the EU legislature used two full recitals to prevent any confusion from arising.<sup>205</sup>

In a recent Opinion regarding lending of electronic books by libraries, AG Szpunar argued that “dynamic” or “evolving” interpretations of the Directives is necessary in order to ensure their effectiveness, in particular in fields such as copyright, due to technological process having such a profound effect on it.<sup>206</sup> Moreover, he argued that doing so would be consistent with the intent of the legislators, as both the Renting and Lending Directive and the InfoSoc Directive appear to express a desire to have copyright adapt to new technological and economic developments.<sup>207</sup>

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<sup>202</sup> InfoSoc Directive, Recital 28.

<sup>203</sup> Lucchi (n 40), 54.

<sup>204</sup> *UsedSoft*, Opinion of AG Bot (n 41), para 75.

<sup>205</sup> Mazziotti (n 42), 66.

<sup>206</sup> *VOB v Stichting Leenrecht*, Opinion of AG Szpunar (n 45), para 28.

<sup>207</sup> *Ibid*, para 29.

The European Court of Justice concluded in the *UsedSoft* case that the term “sale” in Article 4(2) of the Software Directive “term must be regarded, for the purposes of applying the directive, as designating an autonomous concept of European Union law, which must be interpreted in a uniform manner throughout the territory of the European Union”.<sup>208</sup> It continued by stating that the term refers to a person transferring his rights of ownership “in an item of tangible or intangible property belonging to him”, and that exhaustion of the right of distribution in that copy must involve such a transfer of ownership.<sup>209</sup> It ruled that because the licence agreement gave users the right to use the copy for an unlimited period of time in return for remuneration, this meant that a transfer of ownership of the downloaded copy of software would consequently occur.<sup>210</sup> It subsequently concluded that the conclusion of the licence agreement and the subsequent download of the software cannot be separated from one another, because they form “an indivisible whole” since downloading a copy of software is useless if the downloader does not have a licence to actually use the downloaded software.<sup>211</sup>

Some authors have therefore argued that a strict distinction between goods and services solely on the basis of their tangibility is at least misleading.<sup>212</sup> After all, permanent control over a copy is given in certain forms of digital “distribution”, and the exhaustion principle may therefore nevertheless apply.<sup>213</sup>

Moreover, the main objective of the principle of exhaustion has been said to be to avoid partitioning of the EU internal market and to limit restrictions on the distribution of works and copies thereof.<sup>214</sup> Consequently, it has been argued that the term “copy” should therefore be broadly construed, thereby also covering digitally downloaded copies, in order to meet the aims of the right of distribution and to prevent such a partitioning of the internal market by means of the non-exhaustion of rights in copies of the work.<sup>215</sup>

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<sup>208</sup> *UsedSoft* (n 9), para 40.

<sup>209</sup> *Ibid*, para 42.

<sup>210</sup> *Ibid*, paras 45-46.

<sup>211</sup> *Ibid*, paras 43-44.

<sup>212</sup> *Wiebes* (n 43), 115.

<sup>213</sup> *Ibid*.

<sup>214</sup> *Stamatoudi and Torremans* (n 49), 429.

<sup>215</sup> *Ibid*, 424.

## **5.2 Does the doctrine formulated by the European Court of Justice in the *UsedSoft* case extend to downloaded works other than software?**

The *UsedSoft* judgment has been regarded as a landmark case which blew the door for digital exhaustion wide open. It however also caused more confusion, raising questions such as whether the doctrine extends to works other than software, and how someone invoking exhaustion for downloaded software is able to prove that the seller has removed each and every copy he has made of the work.

Regarding the former, German courts have taken a strict grammatical approach and have outright refused to even entertain the notion that the *UsedSoft* doctrine could extend to other kinds of works, such as (audio)books, music, and videogames. After all, the European legislature reiterated multiple times in the InfoSoc Directive that an act of distribution requires the work to be incorporated in a *tangible* article.

Unlike their German colleagues, Dutch courts meanwhile have taken a more cautious approach to the matter, with the District Court of The Hague eventually taking the plunge and making preliminary references regarding the status of e-books under both the Renting and Lending Directive, as well as the InfoSoc Directive.

There have also been two cases from the European Court of Justice that according to opponents of a digital exhaustion principle for works other than software paints a grim picture. The European Court of Justice reiterated the requirement that the right of distribution applies to works incorporated in a tangible article in the *Allposters* case, which some authors took as a confirmation that exhaustion was impossible for downloaded copies. Meanwhile in a case about tax law, the European Court of Justice concluded that unlike physical copies of books, e-books did not qualify for a lower VAT rate. The *Allposters* case and the case about the VAT rate for e-books however did not cover exhaustion for digital downloads at all, with the latter not even concerning copyright law, and digitally downloaded copies being nowhere to be found in the *Allposters* judgment. It would therefore be unwise to place too much weight on the scope of these cases.

There certainly is a good case for this strict approach to the scope of the *UsedSoft* doctrine. From a rightholder's perspective, extending the *UsedSoft* doctrine to works falling under the regime of the InfoSoc Directive does bring additional economic risks. It would allow users to buy digital versions of copyrighted works at a lower price for which the rightholder does not

receive any extra remuneration. Moreover, the seller could make an infinite number of perfect copies, and thus could in principle sell a copy while maintaining a copy for his own.

Nevertheless, if the criteria of the *UsedSoft* doctrine are met, rightholders will already be paid an appropriate remuneration for that copy, and the seller will have made his own copy unusable, thereby not increasing the number of effective copies. Moreover, the European Court of Justice noted in its *UsedSoft* judgment that a rightholder faces the same problem with copies distributed on for instance DVDs, and is therefore allowed to use technical protective measures.<sup>216</sup>

While the European Court of Justice has its hands tied to some extent under the InfoSoc Directive with the aforementioned statements that acts of distribution require a tangible article, AG Szpunar argued that “dynamic” or “evolving” interpretations of the Directives is necessary in order to ensure their effectiveness, and argued that doing so would be consistent with the intent of the legislators. Moreover, Benabou concluded that the European Court of Justice already introduced doubt on the scope of the exhaustion principle by not outright rejecting the possibility that exhaustion could apply to works other than software in its *UsedSoft* judgement.

With the *Tom Kabinet* case having been referred to Luxembourg by the District Court in The Hague, the European Court of Justice will finally be forced to make a decision regarding the status of digital exhaustion under the InfoSoc Directive. No matter which route the European Court of Justice decides to take when answering the preliminary questions referred to it, it is extremely likely that it will be hailed as a landmark case, just as the *UsedSoft* case was before it.

### **5.3 The changes needed in order to accommodate for exhaustion and consequent resale of downloaded copies of works other than software under European copyright law**

A clearer definition is needed when a digitally downloaded work constitutes a good or a service. At the moment, no clarification has been given for works falling under the regime of the InfoSoc Directive, while such a distinction does exist to a certain degree for software. In its *UsedSoft* judgment, the European Court of Justice concluded that a transfer of ownership could occur for downloaded software if this copy is made available to the user for an indefinite period of time at a price giving the rightholder an appropriate remuneration. This would be a good

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<sup>216</sup> *UsedSoft* (n 9), para 79.

way to make a distinction between digitally downloaded works offered as a good and downloads that are offered purely as a service, such as online streaming subscriptions. Hojnik argued that a *sui generis* definition may perhaps be more suited, which is certainly also a viable option. It would certainly allow for a proper method for distinguishing between pure services and digital goods distributed through a download.

Another important hurdle to tackle is the right of reproduction, because a transfer of a downloaded file technically requires a reproduction to be made. One option would be to follow the reasoning from the District Court in The Hague. Because the copy that is made is merely a temporary act of reproduction, it may be possible to interpret Article 2 and 5 of the InfoSoc Directive in a similar manner as Article 5 of the Software Directive, thereby allowing a lawful subsequent acquirer of a resold licence to legally obtain a copy of said work if the initial acquirer deletes his copy of the work. A safer route would be to introduce a lawful acquirer principle, such as the one that is found in the Software Directive, in the successor to the InfoSoc Directive.

Complex and ambiguous works would also need to be dealt with, because certain works sometimes fall under the regime of multiple directives, such as the Software Directive, and the InfoSoc Directive. Because these directives currently often contain very different provisions for similar situations, such as the lawful acquirer principle, a clear approach to complex and ambiguous works will remove much confusion in those cases where the directives contain different or even conflicting provisions. The safest route is therefore perhaps to base the classification of such works on their main characteristics, with for instance videogames falling under the InfoSoc Directive, while software with a GUI falls under the regime of the Software Directive.

Last but not least, the level of harmonisation that is used for a successor of the InfoSoc Directive is also important. The current InfoSoc Directive has been criticised for giving Member States a fairly high level of national procedural autonomy, in particular in its exceptions. Perhaps a higher level of harmonisation is needed in order to guarantee that many of the concepts found in EU copyright law are interpreted more uniformly by national courts, thereby decreasing fragmentation within the EU, as well as improving legal certainty. One of the issues which the Commission is likely to face however is that Member States would have to be willing to relinquish more of their national autonomy in this area, and the question is whether Member States will be willing to do so. Nevertheless, the legislature has been able to achieve this in the past in several fields, with one of the most recent examples being the General

Data Protection Regulation. While it may prove to be difficult to achieve, it is also not impossible.

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