Kluwer Copyright Blog

EU court rules that back-up copies cannot be resold

Sanna Wolk (Cirio Law Firm) · Thursday, October 20th, 2016

Lawful acquirers of computer programs cannot resell back-up copies of the programs. This is according to the Court of Justice of the European Union (CJEU) in case C-166/15 (*Ranks/Vasi?evi?s v. Finanšu un ekonomisko noziegumu izmekl?šanas prokorat?ra/Microsoft Corp*). The circumstances of the case were that two persons sold, on an online marketplace, used copies of computer programs stored on non-original media (CD- and DVD-ROMs).

The primary rule under EU law is that a lawful acquirer of a computer program may resell that copy of the program, pursuant to Art. 4(c) of the Computer Program Directive 91/250/EEC (same article in the codified version of Directive 2009/24/EC). Prior to the breakthrough of the internet and the development of fast broadband, the traditional point of departure was that exhaustion is attached to tangible copies of works. Exhaustion of hard copies was actually not an (important) issue until copying became easier due to the development of phonograms, records, cassettes, videotapes etc. in the 1950s to 1990s. There is therefore no guidance regarding exhaustion of copyright-protected works in the Berne convention of 1886. However, aspects of exhaustion have been negotiated in connection with both the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) of 1994 and the WIPO Copyright Treaty (WCT) of 1996.

Yet, the development of the internet and online distribution has, at least within the EU, set the traditional principle of exhaustion aside where software is delivered online. Art. 4(c) of the Computer Program Directive does not limit the distribution right to tangible media; instead it refers to “any form” of distribution (cf. recital 28 and Art. 4 of the Copyright Directive 2001/29/EC).

The CJEU held in case C-128/11 (*UsedSoft v. Oracle*) that, under certain conditions, a licensed computer program downloaded from the internet shall be considered to have been sold and consequently the distribution right exhausted. This means that the rightholder cannot prevent the buyer from reselling a downloadable copy of a computer program. The situation is therefore the same as when software is sold on a tangible medium. The CJEU in *UsedSoft* held that the term “sale” must be interpreted on an EU level, and concluded that a sale “is an agreement by which a person, in return for payment, transfers to another person his rights of ownership in an item of tangible or intangible property belonging to him”. This therefore includes the scenario where a consumer buys second-hand software online and downloads it from the internet. From a copyright perspective, downloading is an act that technically involves an act of reproduction and therefore *de facto* requires authorisation according to Art. 4 of the Computer Program Directive. Moreover, the CJEU underlined *in UsedSoft* that “the downloading of a copy of a computer program and the conclusion of a user licence agreement for that copy form an indivisible whole” and in a legal

context those “two operations must therefore be examined as a whole for the purposes of their legal classification”. Since consumers were offered (1) a non-exclusive and non-transferable user right, (2) for an unlimited period and (3) for remuneration, according to the Court this constituted a first sale of a copy within the meaning of Art. 4(2) of the Computer Program Directive. The CJEU conclusion was therefore that the method of delivery is irrelevant and the exhaustion of the distribution right of copies of computer programs under the Directive applied to both tangible and intangible copies of software.

However, when a computer program is stored on a non-original medium, such as a new CD-ROM or a DVD-ROM, the lawful acquirer of the copy of the computer program may not resell this reproduced copy to a third party – this is according to the *Ranks/Microsoft* case recently delivered by the CJEU. This means that a person may not resell the computer program when stored on a new medium (for example a back-up copy) – only the original tangible copy benefits from the rule of exhaustion of the right of distribution (cf. Art. 4(c) and Art. 5(1)-(2) of the Computer Program Directive). It is irrelevant if the original tangible medium on which the copy was initially delivered has been destroyed, damaged or lost. The CJEU justified this on the ground that an exception to the exclusive reproduction right must be interpreted strictly and, according to Art. 5(2) of the Computer Program Directive, a back-up copy may only be made and used to meet the sole needs of the person having the right to use the program, and not for any other reason.

In conclusion, the CJEU case law confirms that original media and unlimited user licences for computer programs are fine to resell. Unsurprisingly, however, the software business is changing and new business models developing. With the introduction of Software as a Service (SaaS) and IT as a Service (ITaaS), which are becoming increasingly common, as well as streaming services, the sale-licence dichotomy and the creation of back-up copies will probably become irrelevant. This development will impact the legal issues surrounding exhaustion because, for the use of online software in real-time, the equivalent is not a sale of a copy, but instead the provision of a service. However, the software industries should keep in mind that the CJEU is not afraid to challenge traditional copyright principles established during the 21st century in order to make the copyright system work in today’s society. Nonetheless, in my opinion the legal questions around exhaustion, the definition of the original tangible medium and whether a transaction is a sale or the provision of a licence will soon be irrelevant.

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