Kluwer Copyright Blog

Does the doctrine of exhaustion apply to videogames purchased digitally? French court says oui

Melinda Rucz (Institute for Information Law (IViR), University of Amsterdam) · Thursday, December 12th, 2019

On 17 September 2019, the Paris Court of First Instance ("court") delivered its judgment in the dispute between UFC-Que Choisir ("UFC"), a consumer organisation, and a videogame distribution platform operated by Valve. Among other issues, the court was asked to decide whether subscribers to Valve's platform should be allowed to resell videogames purchased digitally. The court answered in the affirmative, finding the principle of exhaustion to be applicable to such cases. The decision of the Paris court came only a week after Advocate General ("AG") Szpunar stated in his opinion on *Tom Kabinet* that e-books purchased by downloading cannot be resold. The French court's judgment, therefore, represents a new brick in the wall of digital exhaustion, the possibility of which under the EU copyright acquis is contested.

Facts

In 2015, UFC brought an action against Valve, which operates the Steam videogame platform. UFC sued Valve on the basis of several features of the Steam Subscriber Agreement. The first two claims related to certain aspects of the Subscription Agreement and corresponding privacy policy constituting unfair contractual terms and violating data protection law. Besides this, UFC contended that the Subscription Agreement was not compatible with copyright law.

Regarding the copyright-related claims, UFC invoked two arguments. It stated that

the transfer of copyright protected user-generated content was contrary to French law on copyright transfer. Furthermore, and most importantly, UFC asserted that article 1.C of the Subscription Agreement, prohibiting the resale of videogames, was illegal. The organisation maintained that such a clause was in conflict with the free movement of goods in the EU, a principle which is given effect by the doctrine of exhaustion in the field of copyright law. Valve disputed the application of the exhaustion principle, due to the intangible nature of downloaded videogames. Essentially, the question faced by the court was whether digital exhaustion is possible in relation to videogames.

Judgment

The court first found that certain clauses in the Subscription Agreement constituted unfair contractual terms. The privacy policy was also held to be illicit by the court, particularly because of its lack of transparency towards subscribers. On the transferability of the copyright over user-generated content, the court stated that the Subscription Agreement contributed to creating a significant power imbalance between the user and the platform due to its lack of specification of which rights are subject to transfer and over which content.

With respect to the core question on digital exhaustion, the court started by assessing whether the InfoSoc Directive or the Software Directive govern copyright in videogames. It noted that article 1 of the Software Directive read in conjunction with recital 7 of the same Directive gives computer programs a broad definition, and article 1(2) of the InfoSoc Directive specifies that it is without prejudice to the former Directive. Based on this, the court concluded that both directives apply to the case, with the Software Directive enjoying a *lex specialis* status. Subsequently, it noted that both directives lay down the principle of exhaustion upon first sale of a copy of a good. According to the court, neither directive makes a distinction between material and immaterial copies. The court argued that downloading a videogame file and installing it on a computer constitutes a copy of that work, with the result that once that copy is placed on the market with the consent of the rightholder, the latter loses control over its further distribution. In the view of the French court, this conclusion is substantiated by *UsedSoft* where the CJEU ruled that the right of distribution applies irrespective of the method of distribution, thus leading to exhaustion of this right even if the first sale was made by downloading.

Additionally, Valve argued that it is not selling videogames but rather it provides subscription-based services, meaning that the non-exhaustible right of communication to the public governs its service provision rather than the right of distribution. The court refused this argument and stated that Valve's platform resembles the selling of videogames, since upon purchase, videogames are available to users for an unlimited period. In conclusion, the court found that Valve cannot prevent users from reselling their digitally purchased videogames. Therefore, article 1.C of the Subscription Agreement postulating exactly this is null and void.

Comment

The reasoning of the court invites a few critical comments to be made. First, while the

court did not explicitly set aside the InfoSoc Directive, it is clear that in its view the Software Directive and the *UsedSoft* judgment govern copyright in videogames. With this, the Paris court essentially equated videogames with software. Such a conclusion does not sit easily with the legal nature of videogames in EU law. In *Nintendo*, the CJEU claimed that videogames "constitute complex matter" that cannot be reduced to a computer programme but also entail graphic and sound components representing a "unique creative value" (para. 23). In fact, the possibility of digital exhaustion for Valve's platform has already been the subject of litigation in Germany (case 15 O 56/13), where the Regional Court of Berlin refused to consider videogames as software and did not apply the *UsedSoft* judgment. It seems to be a considerable omission that the Paris court did not critically reflect on the legal nature of videogames, particularly in light of the *Nintendo* ruling.

Additionally, the court's reasoning remains questionable concerning the doctrine of exhaustion covering material and immaterial forms of a work alike under both the InfoSoc and Software Directives. The InfoSoc Directive delineates the right of communication to the public in article 3 and the right of distribution in article 4, and states that the doctrine of exhaustion only applies to the latter. Recital 29 spells out that exhaustion does not apply to "on-line services", implying that the digital realm is governed by the right of communication to the public. Furthermore, the French implementation of the doctrine of exhaustion, Article 122-3-1 of the Intellectual Property Code, specifies its application to material copies of a work only. The CJEU has similarly claimed in *Art & Allposters* that the principle of exhaustion only arises in relation to tangible copies of a work. Recently, AG Szpunar upheld this claim in his opinion on *Tom Kabinet* in order to argue that while the introduction of digital exhaustion might be desirable, the InfoSoc Directive currently does not allow for it, and *UsedSoft* was enabled merely by the *lex specialis* nature of the Software Directive (see comment here). In light of this, the Paris court's conflation of material and immaterial copies, regardless of the directive governing the case, appears flawed.

Conclusion

Valve has already voiced its intention to appeal the decision. The awaited CJEU ruling on *Tom Kabinet* will have already been issued by then, hopefully providing much needed clarity on the possibility of digital exhaustion under the InfoSoc Directive. Nevertheless, the case at hand brings forth issues that reach beyond what *Tom Kabinet* could possibly clarify. Any final decision on this case will depend on where the line is drawn between the Software Directive and the InfoSoc Directive and on which side of the line videogames will fall. Valve has already proposed that these questions are best decided by the CJEU and requested that the Paris court refer them for a preliminary ruling. The court of first instance decided not to take this opportunity, but perhaps the appeal court will.

---

please subscribe here.

This entry was posted on Thursday, December 12th, 2019 at 3:56 pm and is filed under Copyright, The right of distribution is set out in Article 4(1) of Directive 2001/29/EC (the Copyright Directive or Infosoc Directive), which requires that Member States shall provide for authors, in respect of the original of their works or of copies thereof, the exclusive right to authorise or prohibit any form of distribution to the public

by sale or otherwise.

“>Distribution (right of), Exhaustion, France
You can follow any responses to this entry through the Comments (RSS) feed. You can leave a response, or trackback from your own site.