

# Is the digital exhaustion debate really exhausted? Some afterthoughts on the Grand Chamber decision in Tom Kabinet (C-263/18)

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One of the most awaited copyright rulings of 2019 – *Nederlands Uitgeversverbond and Groep Algemene Uitgevers v Tom Kabinet Internet BV and Others* (C-263/18), on the admissibility of digital exhaustion under the InfoSoc Directive – came out on 19 December, lost in the decisions galore issued by the CJEU the last working day before the holiday season.



The facts are well known. NUV and GAV, two associations representing Dutch publishers, applied to the Rechtbank Den Haag for an injunction to stop the online platform Tom Kabinet from making available “second-hand” e-books to members of its “reading club”. The platform offered e-books which had either been donated by other members or purchased by Tom Kabinet. In both cases, Tom Kabinet watermarked the files to certify their lawful origin, and then offered them for download upon payment of a fixed price. E-books could also be sold or donated back to Tom Kabinet in exchange for credits to be used for future purchases. The referring court maintained that the case could not be solved without first clarifying whether “the making available remotely by downloading, for use for an unlimited period, of e-books (...) at a price by means of which the copyright holder receives remuneration equivalent to the economic value of the work” should be understood as an act of distribution under Article 4 InfoSoc Directive, subject to exhaustion, or rather as an act of communication to the public under Article 3 (as interpreted by the CJEU).

## The decision: key points

The Grand Chamber – Rapporteur Ilesič – largely followed the approach adopted by AG Szpunar in his Opinion. It concluded that the wording of the InfoSoc Directive alone could not answer the question (§ 37), and opted for a contextual and teleological interpretation of its provisions, backed by a set of economic considerations.

**Contextual and teleological arguments.** On the basis of Recital 15, which defines the InfoSoc Directive as (in part) a tool to implement the WIPO Copyright Treaty (WCT), the Court drew the boundaries between Articles 3 and 4 InfoSoc in line with Articles 8 and 6(1) WTC and the related Agreed Statement, which specifies that the notions of “copies” and “original and copies” subject to the distribution right should be understood as referring to “fixed copies that can be put into circulation as tangible objects” (§39). To support the material-only reading of the scope of Article 4 InfoSoc, the CJEU also cited the explanatory memorandum to the InfoSoc Directive, which includes on-demand transmissions under the right of communication to the public, and stretches Article 3 InfoSoc to cover any communication “other than the distribution of physical copies” (§44). For the Court, this broad reading is also confirmed by a cluster of recitals (4,9,10,25,28,29) that emphasize the broad coverage of Article 3 InfoSoc and the need to secure a high level of protection.

**Economic considerations.** The Grand Chamber used the same economic justifications underlying the *UsedSoft* ruling (digital exhaustion of software) to distinguish the latter from Tom Kabinet and exclude the economic soundness of digital exhaustion if applied to more traditional works, in light of the different economic and functional characteristics of their forms of exploitation compared to those of software programs. The sale of software via download – the Court stated – is functionally equivalent to and thus has the same economic meaning as the sale of software on a material medium, but the same cannot be said for e-books. Sharing the AG’s Opinion, the CJEU emphasized that, unlike material copies, digital files are not subject to deterioration by use, and the exchange of used copies does not entail additional effort or cost. Both features cause the second-hand market for digital copies to have a significant impact on the original market of the work, and thus on the capability of rightholders to obtain an appropriate reward. Without stating it explicitly, the Court seemed to suggest that digital exhaustion would negatively affect the performance of the essential function of copyright, as defined by its 1970s-1980s case law (see, eg, *Deutsche Grammophon*, *Coditel I* and *II*, *Magill* and their progeny): granting rightholders an appropriate remuneration from the exploitation of their works.

**Is this communication to the public?** Having excluded the applicability of Article 4 InfoSoc to the distribution of digital copies, the question the Court still had to address was whether Tom Kabinet’s conduct met the two cumulative criteria set by the CJEU to identify an act covered by Article 3 InfoSoc, i.e. whether (a) it represented an act of communication and (b) it was directed to a public. The Court considered the first requirement met, since Tom Kabinet makes protected works available for on-demand transmission, and according to the Explanatory Memorandum to the InfoSoc Directive “it is not relevant whether any person actually has retrieved [the work] or not” (§§63-64). The second requirement was also deemed satisfied. Both the CJEU case law and the Explanatory Memorandum make clear that a “public” is present when “several unrelated persons (...) may have individual access (...) to a work”, and when their number is not too small, considering not only “the number of persons able to access the work at the same time, but also how many of them may access it in succession” (§§67-68). The Court ruled Tom Kabinet’s offer was directed to a public within this definition, since any interested person could enroll in the reading club, and no technical measure ensured that e-books were downloaded only by one user at a time or that users lost access to the copies once they sold them back to the platform. The fact that e-book license agreements tend to exclude the possibility of resale was also considered enough to qualify Tom Kabinet’s members as a new public not envisioned by rightholders on the occasion of the first commercialization of their works (§71).

## Missing answers and new questions

By rephrasing the question(s) posed by the referring court, the CJEU could avoid untangling most of the interpretative knots surrounding the problem of digital exhaustion and their impact on the traditional construction of exclusive rights under the InfoSoc Directive. The Court framed the problem as a mere boundary-setting exercise between the right of distribution, as designed in the timeframe 1996-2001 (WCT-InfoSoc), and the extremely overarching reading of the right of communication to the public offered by its case law. This conservative approach left unanswered a number of key questions that could have ensured systemic consistency and a steadier copyright balance in the process of modernization. *Tom Kabinet*, instead, left us with a set of neglected inconsistencies, and new question marks over the extent to which Article 3 InfoSoc may really cover all forms of digital distribution of protected works.

## Neglected inconsistencies...

The Rechtbank Den Haag, in fact, asked the same questions raised in the *UsedSoft* case. The implicit aim was to force the CJEU to address the points analyzed in the realm of the Software Directive, and particularly to clarify the conceptual distinctions between sale vs license and goods and services when applied to new formats and channels of exploitation. *UsedSoft* offered a new, functional reading of the notion of sale as an autonomous concept of EU law, disconnected from the material or immaterial nature of its object and linked to its economic meaning. Tom Kabinet completely omits this point, despite its relevance also for the InfoSoc Directive. The ambiguous reference to “services” in Recital 29 to define the scope of exhaustion, coupled with the limitation of distribution to “sale and other transfers of ownership” suggests the need to clarify whether works offered online in digital format and transferred permanently for a price corresponding to their full value should be qualified as goods subject to a sale (or the like) or services subject to a license. Instead, the blind reference to the WCT reduces the distribution vs communication distinction to the dichotomy material vs online forms of exploitation. This shortcut disregards the link that the InfoSoc Directive traces between distribution-sale-good and communication-license-services. At the same time, it does not test whether its interpretation of the Directive can be still held valid and updated against contextual changes in EU law such as the Consumer Rights Directive’s (2011/83/EU) qualification of digital content as *tertium genus* between goods and services, or the qualification of e-books as equal to books for VAT purposes. And neglecting the dichotomy introduced by Recital 29 InfoSoc between sale-like and service-like rights to define the external borders of exhaustion deprives the Court of the opportunity to use the principles inspiring its early case law on Community exhaustion to guide the teleological interpretation of Article 4(1) InfoSoc. This entails omitting to refer to the essential function of copyright as metrics to guide the balance between exclusive rights and conflicting rights and freedoms. Such a choice would have offered a straightforward tool to define the scope of exhaustion, *id est* to rule out its application every time the characteristics of the work made it necessary to keep rightholders in control of subsequent exploitations (after the first sale) to ensure that they obtained an adequate remuneration.

The Grand Chamber statements and omissions introduce a number of additional inconsistencies. Limiting the functional reading of the sale vs license dichotomy to software now results in a *de facto* fragmentation of the notion of sale in different copyright areas. How the decision in *Tom Kabinet* can coexist with *VOB* (C-174/15), where the Court stated that Member States may introduce digital exhaustion of the right of distribution under Article 4(2) InfoSoc as a precondition for the lawful enjoyment of the public lending exception on e-books (§65), remains a systematic mystery.

**...and a new question mark.** In detailing the reasons why Tom Kabinet’s communication should be understood as directed to a “public” that fulfills the criteria necessary for the application of Article 3 InfoSoc, the Court seems to suggest that there might be instances where the online distribution of protected works could fall outside the scope of the provision, thus hinting at a potential grey zone between Articles 3 and 4 InfoSoc. Reading a *contrario* para 69 of the judgment, the presence of technical measures ensuring that only one copy of the work may be downloaded at a time and that a user cannot access the copy once she has sold it back to Tom Kabinet would prevent the number of persons who may have access, at the same time or in succession, to the same work via the platform being substantial enough to meet the requirements set by the CJEU’s case law. Having ruled out Article 3 InfoSoc, the non-applicability of Article 4 InfoSoc would leave such forms of distribution unclassified, forcing the Court either to stretch the notion of public beyond its current borders, or to revise its interpretation of the notion of distribution in order to have them covered by one of the InfoSoc exclusive rights.

The debate on digital exhaustion is, in fact, anything but exhausted. The question now is how long it will take national courts to spot these outstanding flaws, and revert back to the CJEU to get them solved.