Kluwer Copyright Blog

The UsedSoft case – exhaustion online

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On April 24, 2012 the Advocate General Yves Bot delivered his opinion in the UsedSoft case (C-128/11) concerning exhaustion in digital products that have not been distributed on a material carrier.

I think this may be one of the more interesting and bold opinions in the area of copyright law, although I am aware the competition is stiff. Should the Court accept the AG's views this may even be a small forerunner of important changes in how copyright law adapts itself to the internet era.

The questions asked by the Bundesgerichtshof were :

1. Is the person who can rely on exhaustion of the right to distribute a copy of a computer program a 'lawful acquirer' within the meaning of Article 5(1) of Directive 2009/24/EC?

2. If the reply to the first question is in the affirmative: is the right to distribute a copy of a computer program exhausted in accordance with the first half-sentence of Article 4(2) of Directive 2009/24/EC when the acquirer has made the copy with the rightholder's consent by downloading the program from the internet onto a data carrier?

3. If the reply to the second question is also in the affirmative: can a person who has acquired a 'used' software licence for generating a program copy as 'lawful acquirer' under Article 5(1) and the first half-sentence of Article 4(2) of directive 2009/24 also rely on exhaustion of the right to distribute the copy of the computer program made by the first acquirer with the rightholder's consent by downloading the program from the internet onto a data carrier if the first acquirer has erased his program copy or no longer uses it?

That such questions would have to be asked sooner or later was more than probable because despite the clearly misguided statement in the rectial 29 of the 2001/29 directive that the question of exhaustion does not arise in the case of services and on-line services, the truth is different the

best proof of which is the fact that a court of such a stature as the BGH apparently did not share the certainty of the authors of the copyright directive. It is by the way a rather convincing argument that legislators should not decide which questions may be asked and which not.

The preliminary questions asked by the BGH originated from the dispute in which Oracle, one of the largest software companies, opposed business practices of UsedSoft, a German company selling licences bought from Oracle customers. The problem was that UsedSoft's customers downloaded the software from Oracle's website, while UsedSoft seemed to have supplied the 'used' licences. In other words, the aptly named UsedSoft did not deliver any physical media with software and hence the controversy whether the exhaustion principle could apply.

The Advocate General decided, in my opinion correctly, that the crucial issue is whether downloading software from Oracle's website by a person residing in the EU entails the Community exhaustion of the distribution right in the meaning of art. 4 (2) of the Directive 2009/24 on the legal protection of computer programs. This corresponds to the second question asked by the BGH. The first and the third questions ask whether the acquirer of the "used license" could be considered a lawful acquirer (under art. 5 (1) of this directive) and rely on exhaustion of the right to distribute the copy of the computer program downloaded by the first acquirer in order to make a new copy of the program where the first acquirer has erased his copy or no longer uses it.

I will risk saying that in laymen terms the problems here are the following: (1) does the act of downloading software from the internet with the rightholders consent and thus making a copy of this software lead to the exhaustion of the distribution right in this copy (2) does the exhaustion principle also apply when the downloader makes another copy of the software in question, while at the same time deleting the first downloaded copy (alternatively ceases to use the downloaded copy).

Before explaining the reasoning of the Advocate General (and it is legally interesting in quite a few points) it should be useful to explain why the controversy emerged. It is true that exhaustion is associated with physical copies and sometimes justified solely by the need to eliminate the potential conflict between intellectual property and property in things. If so, then where there is no transfer of a physical copy (e.g. a CD, CD-ROM, DVD-ROM, Blu-Ray, etc.) there should be no exhaustion. But the basic sense of fairness suggests it cannot be this simple. Buying a physical copy and downloading it from the internet are equivalent transactions and yet, under the 'traditional view' copyright law would put those who download instead of buying physical carriers in a significantly worse position. Such a person may pay a substantial amount of money for software, but is not allowed to resell it. This is not only 'unfair' but also a serious economic burden, as investment in software (or other copyright products) becomes a 'sunk' investment. Apart from that elimination of exhaustion from the internet disturbs the balance between users and rightholders in copyright law, as the rightholder remains always in control of the copyright work. Since more and more copyright works are sold as downloads, there would be no (or substantially reduced) 'second-hand' markets. Because of all these reasons quite a few authors have argued that exhaustion in digital products distributed as downloads should not be ruled out. I was quite surprised to find out that the Advocate General seems to concur.

The AG duly presents all arguments put forward by the parties, governments and the Commission (all apart from UsedSoft opposing exhaustion), but concludes he is not persuaded by them. The first hurdle he must cross is the wording of art. 4 (2) of the 2009/24 Directive, using the words: "first sale". Can there be 'sale' when we only download and are granted a license to use? The AG

argues that ‘sale’ must be understood as an autonomous term of the directive and that the directive distinguishes between ‘sale’ as a transaction with a lump sum payment granting the right to use for unlimited time and rental, a transaction characterised by the making available for use, for a limited period of time and for profit-making purposes.

A good summary of these arguments is offered in p. 58 of the opinion where it is said: ”That right of use bears the hallmarks of rental where it has been conferred temporarily in return for the payment of a periodic fee and the supplier has not relinquished ownership of the copy of the computer program, which the rightholder must return to him. On the other hand, it appears to me to bear the hallmarks of sale where the customer secures permanent acquisition of the right to use the copy of the computer program, which the supplier relinquishes in return for a lump sum payment.” Then follows the functional analysis where the AG explains how his approach harmonises with the goal of the exhaustion principle in copyright law (“to limit the exclusivity conferred by the intellectual property right once the marketing operation has enabled the rightholder to realise the economic value of his right”).

The second hurdle is the argument that downloading is covered not by the distribution right but by the right of communication to the public (art. 3 (3) of the Directive 2001/29). The latter is not subject to exhaustion. The AG deftly maneuvers around this pointing out that since the directive 2001/29 does not affect existing EU law concerning computer programs, then the relevant benchmark should be the directive 2009/24 (in fact not much more than the codified directive 91/250) and this directive does not know the right of communication to the public, but instead broadly understands the distribution right. It is certainly ingenious, but unfortunately poses two problems. First, this argument cannot apply to other copyright works, and second, it would not be logical if the basic concepts of copyright law differed between computer programs and other types of copyright works.

The third hurdle is the sum of numerous statements contained in various legal acts suggesting exhaustion cannot apply when no physical carrier is sold. The AG considers them at best equivocal. It may be explained by the example of the recital 29 in the directive 2001/29:

“The question of exhaustion does not arise in the case of services and on-line services in particular. This also applies with regard to a material copy of a work or other subject-matter made by a user of such a service with the consent of the rightholder. Therefore, the same applies to rental and lending of the original and copies of works or other subject-matter which are services by nature. Unlike CD-ROM or CD-I, where the intellectual property is incorporated in a material medium, namely an item of goods, every on-line service is in fact an act which should be subject to authorisation where the copyright or related right so provides.”

The AG notices that on-line services may include the sale of goods online, where exhaustion surely applies. It seems therefore that in the AG’s eyes this recital could be also interpreted in the light of the distinction between functionally understood “sale” on one hand and “rental”, or, in place of rental, other services, on the other hand. It is worthwhile to note that the opinion explicitly takes the view that the narrow interpretation of exhaustion would affect the freedom of movement (p. 78) and, maybe less clearly, but still noticeably, that it would rather go against the purpose of adapting copyright to the digital environment (p. 72). Especially the ‘freedom of movement’ argument deserves attention, because it reunites ‘digital exhaustion’ with the ‘specific-subject matter’ concept.

The result of the foregoing is the following answer: “the right to distribute the copy of a computer program is exhausted if the rightholder, who allowed that copy to be downloaded from the internet to a data carrier, also granted, for consideration, a right to use that copy for an unlimited period of time”.

What I think it means in practical terms is that if I purchase a computer program and download it to my hard drive I may then further distribute the hard drive (or a computer with this hard drive). This is however not the most convenient way, so the question arises: could I for example transfer the program to another carrier (i.e. make a copy on a DVD, flash drive, etc.) and sell this carrier, while deleting the originally downloaded software from the hard drive. It is what questions 1 and 3 are about and here the Advocate General replies in the negative.

It feels that this negative answer was not given lightly – the AG clearly knows, and shares this knowledge with us, that to deny this right significantly limits the practical importance of online exhaustion. Nevertheless, to allow it would mean applying exhaustion to the right of reproduction and, according to the AG, no grounds for such an interpretation can be found in the EU law. It would be also contrary to the principle of legal certainty.

The AG does not mention, however, the one case where exhaustion was actually applied to the reproduction right, i.e. the Dior/Evora case where the ECJ allowed to reproduce trademarks in advertising (“the reseller (…) is also free to make use of the trade mark in order to bring to the public’s attention the further commercialisation of those goods”), adding that the same reasoning must apply to copyright.

What we get from the AG’s opinion in the UsedSoft case is an approach that tries to detach itself from technicalities and literal interpretation of legal rules. It shows, for one, that this way we can overcome certain problems created by the inadequacy of the law in force with regard to the digital environment, but at the same time proves that such a method has its limitations. I think the most important conclusion one may draw from Advocate General’s remarks is the rejection of the line of reasoning according to which the only way for copyright in digital economy is to grant unlimited monopoly to rights holders and discard as outdated well known institutions such as exhaustion, allegedly unfitted for the internet. The opinion notices that such legal concepts are inherent in the balance of interests reflected in copyright law.

As far as the practical side of things is concerned there are some opportunities and some unanswered questions. It seems for example that when this is possible, one could download directly to a carrier (e.g. a USB stick). The right of distribution would be thus exhausted. It remains on the other hand in my opinion uncertain whether the AG’s conclusions could apply to all copyright works, not just computer programs. To argue otherwise would be of course detrimental to the most basic idea of the coherence of EU law, but it is impossible not to notice that the AGs reasoning in p. 72 relies on the difference between directives 2009/24 and 2001/29.

To sum up, for now we have been given a fascinating issue to discuss, while waiting for the ECJ. If I may reveal my personal preference, I hope the Court follows the AG’s opinion, and even (one may dream) is slightly bolder when answering the first and third questions.

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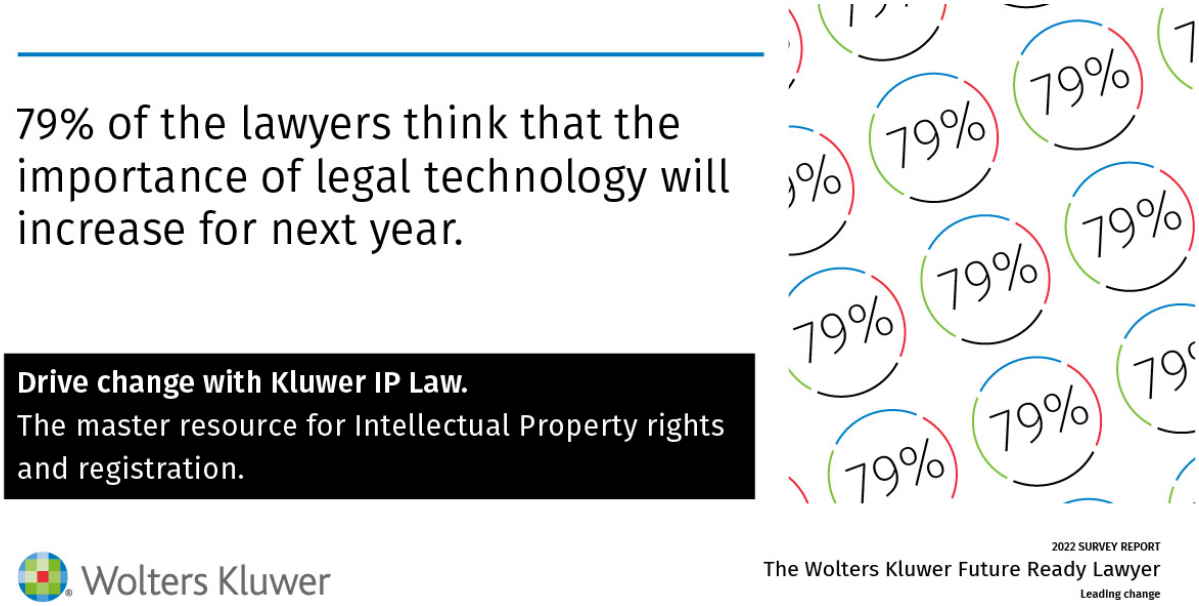

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