# Kluwer Copyright Blog

## Welcome to the Brave Old World – UsedSoft and the 'Full' Online Exhaustion

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*"With a bit of pathos one may say that the CJEU has restored the old exhaustion principle to its full glory in the digital age. In order to do so the Court did not hesitate to be adventurous with legal interpretation and has also opened new fields for discussion."*

On July 3 the CJEU delivered its judgement in the UsedSoft case concerning the question that according to the recital 29 of the 2001/29 directive "does not arise", i.e. the question about 'online exhaustion'. When it, however, arose and when the CJEU answered it, there are only bits and pieces of the traditional copyright wisdom to be collected and discarded. Not so long ago I reported the Advocate General's opinion in this matter and already this opinion could be rightly considered as bold in that the AG affirmed the very concept of exhaustion without transferring a material carrier, although then limited its scope. The Court went even further and acknowledged 'full' online exhaustion, as least as regards computer programs. As with all controversial matters, even this very definitive statement does not end the debate, but ushers in a set of new questions courts in EU member states may be forced to ask in the near future. Let us then briefly recall the facts and then see what the Court said and how it explained itself.

The dispute that eventually led the German Supreme Court (BGH) to ask preliminary questions to the CJEU originated in business practices of UsedSoft, a German company selling licences bought from Oracle customers. Oracle allowed its clients to download software from their website, but in order to use this software they had to conclude a license agreement. Licenses were granted for unlimited period of time and for a one-time payment, but were not transferable. Nevertheless UsedSoft bought such 'used' licenses ('used' but valid) and offered them to other customers. Such customers downloaded the software from Oracle's website. UsedSoft itself did not deliver any physical media with software and hence the controversy whether the exhaustion principle could apply. In some cases an Oracle's client purchased a bundle of licenses to use the same software and later wanted to sell only a part of this package (e.g. one buys licenses for 30 users and then it appears only 20 are needed, so one wants to sell the extra 10). The last important bit of information is that, as is common with software, Oracle provided regular updates and patches, so that usually software that was to be sold differed from the one originally purchased.

The BGH asked the following questions:

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?

As you may remember, the AG answered them to such effect that although Oracle's way of making the software available to its clients constituted 'sale' for the purpose of exhaustion, the 'buyer' could not sell the purchased software, while deleting it from his/her system, because this would fall under the reproduction right, which cannot be exhausted.

The CJUE, following the AG's approach, started with the second question. This question was interpreted by the CJEU as asking "whether and under what conditions the downloading from the internet of a copy of a computer program, authorised by the copyright holder, can give rise to exhaustion of the right of distribution of that copy in the European Union within the meaning of Article 4(2) of Directive 2009/24." (par. 35). Here the court seems to agree with the AG and the foundation of all the subsequent reasoning is the conclusion that the term 'sale' in art. 4 (2) of Directive 2009/24 must be construed as an autonomous EU law concept and should be given a functional interpretation. In par. 42 the Court observes that: "According to a commonly accepted definition, 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. It follows that the commercial transaction giving rise, in accordance with Article 4(2) of Directive 2009/24, to exhaustion of the right of distribution of a copy of a computer program must involve a transfer of the right of ownership in that copy." It is understandable what the Court wants to do, but still civil law purists may cringe at the part where it is said that you can transfer right of ownership in an immaterial copy (in some legal systems ownership may only concern material things – that is, after all, why we need 'intellectual' property), but this is a minor quibble about terminology. Having said that the CJEU came to the conclusion what Oracle did amounted to 'sale' because the license and downloading formed an inseparable whole. Customers paid one price for the right to use what they purchased for an unlimited period of time.

What springs immediately to mind is: but there was no physical copy! To this the Court says: "Since an acquirer who downloads a copy of the program concerned by means of a material medium such as a CD-ROM or DVD and concludes a licence agreement for that copy receives the right to use the copy for an unlimited period in return for payment of a fee, it must be considered that those two operations likewise involve, in the case of the making available of a copy of the computer program concerned by means of a material medium such as a CD-ROM or DVD, the transfer of the right of ownership of that copy." (par. 47). To argue otherwise would allow circumventing the rule of exhaustion (par. 49).

One may say that part (wide understanding of the term ‘sale’ for the purpose of exhaustion) was easy, but then serious obstacles begin. The major ones are the following:
• What Oracle did should be called ‘making available to the public’ within the meaning of Article 3(1) of Directive 2001/29, which, in accordance with Article 3(3) of that directive, cannot give rise to exhaustion.
• Exhaustion of the distribution right referred to in Article 4(2) of Directive 2009/24 relates only to tangible property and not to intangible copies.
• Exhaustion cannot be applied to services (relevant for the maintenance contract – the basis for updates and patches).

It is hard to argue that allowing to download from the internet is ‘making available to the public’ within the meaning of Article 3(1) of Directive 2001/29 and the CJEU does not expressly reject this conclusion. Instead it notices that there is no such right mentioned in Directive 2009/24 and the latter is lex specialis. In other words, this argument is not relevant for computer programs. It cannot be however easily brushed off when other types of copyright works are concerned. Having positioned itself safely within the ambit of Directive 2009/24 the CJEU continues, pointing out that there is nothing in the wording of art. 4(2) of this Directive to exclude intangible copies. The exact statement is worth quoting: “On this point, it must be stated, first, that it does not appear from Article 4(2) of Directive 2009/24 that the exhaustion of the right of distribution of copies of computer programs mentioned in that provision is limited to copies of programmes on a material medium such as a CD-ROM or DVD. On the contrary, that provision, by referring without further specification to the ‘sale … of a copy of a program’, makes no distinction according to the tangible or intangible form of the copy in question”. But what with the more precarious territory of Directive 2001/29? There, as we remember, one may find arguments to the contrary. The Court had the following to say (par. 60): “It is true that the concepts used in Directives 2001/29 and 2009/24 must in principle have the same meaning (…). However, even supposing that Article 4(2) of Directive 2001/29, interpreted in the light of recitals 28 and 29 in its preamble and in the light of the Copyright Treaty, which Directive 2001/29 aims to implement (…), indicated that, for the works covered by that directive, the exhaustion of the distribution right concerned only tangible objects, that would not be capable of affecting the interpretation of Article 4(2) of Directive 2009/24, having regard to the different intention expressed by the European Union legislature in the specific context of that directive.” The key phrase here is “even supposing that”. The CJEU is not certain this would be the case and what is characteristic is that it immediately proceeds to provide us with reasons why exhaustion should not be limited to tangible copies. There is a functional argument (par. 61 – transactions are equivalent from the economic point of view) and, what seems to me to be of utmost importance, arguments directly referring to the concept of the “specific subject-matter” of IP rights (par. 62-63). In the eyes of the Court rejecting exhaustion in intangible copies could lead to the partitioning of the markets. I will come back to that in a moment.

As to the argument about services not being subject to exhaustion, the Court finds that “[t]he functionalities corrected, altered or added on the basis of such an agreement form an integral part of the copy originally downloaded and can be used by the acquirer of the copy for an unlimited period, even in the event that the acquirer subsequently decides not to renew the maintenance agreement.” Consequently (par. 68): “In such circumstances, the exhaustion of the distribution right under Article 4(2) of Directive 2009/24 extends to the copy of the computer program sold as corrected and updated by the copyright holder.”

The one setback UsedSoft suffered in this judgement is that even if the license covers a larger

number of users than the licensee needs, exhaustion does not allow splitting the license. This is because in order for exhaustion to happen the original user must delete or make his/her copy unusable and in such a situation this would not be the case (the original user would continue to use the downloaded copy).

Now is time for the Court to answer questions 1 & 3 and it did so going beyond what the AG had suggested. To begin with the Court understands these questions as asking (par. 73) "whether, and under what conditions, an acquirer of used licences for computer programs, such as those sold by UsedSoft, may, as a result of the exhaustion of the distribution right under Article 4(2) of Directive 2009/24, be regarded as a 'lawful acquirer' within the meaning of Article 5(1) of Directive 2009/24 who, in accordance with that provision, enjoys the right of reproduction of the program concerned in order to enable him to use the program in accordance with its intended purpose." I would perhaps simplify a bit more: can you "sell" the downloaded copy or your "license" (the use of quotation marks is deliberate, since as explained, for civil law lawyers in some countries this is a somewhat unorthodox use of legal terminology), so that the "buyer" could legally use the program? Whereas the AG answered: in principle, no, the CJEU says: in principle, yes!

The result is, in my opinion, the consequence of a very functional approach to the distribution right. Similarly to the interpretation of sale, the CJUE seems to consider distribution in functional, economic terms. It, therefore, is allowed to argue that (par. 80): "Since the copyright holder cannot object to the resale of a copy of a computer program for which that rightholder's distribution right is exhausted under Article 4(2) of Directive 2009/24, it must be concluded that a second acquirer of that copy and any subsequent acquirer are 'lawful acquirers' of it within the meaning of Article 5(1) of Directive 2009/24". Please note, that in a traditional sense it is difficult to describe the transaction between the original Oracle licensee and the next purchaser as a form of "acquisition of copy". A lawful acquirer has then the right to make a copy by himself, and this may be achieved by downloading it from Oracle (not the "first buyer"). The "seller" should, however, delete or make unusable his own copy. The CJEU rightly observes that this may pose practical problems but they are not much less complicated when a physical copy (a CD, DVD) is involved (par. 79).

With a bit of pathos one may say that the CJEU has restored the old exhaustion principle to its full glory in the digital age. In order to do so the Court did not hesitate to be adventurous with legal interpretation and has also opened new fields for discussion. To comprehend all consequences of the UsedSoft decision will require time and research effort, but allow me to give the readers some food for thought for the future:

1. What does it mean that an online sale as understood by the CJEU takes place in the EU? The legal curse of the digital world (difficulties in establishing the applicable law, jurisdiction, etc. ) will continue with "first sale".
2. What with other types of works? Does Directive 2001/29 really allow online exhaustion?
3. If it does not allow it, is it compatible with the Treaty? The CJEU seems to suggest it would lead to market partitioning.
4. In the UsedSoft case art. 5 (1) of the software directive played a prominent role. Can it be substituted by fair use exceptions in the case of other type of works, primarily the private use exception? In some countries private use is very narrow – if this is the case, should it be expanded because otherwise the national law would be incompatible with the Treaty?
5. What will software companies come up with to minimize the damage?

Something tells me UsedSoft has not been the CJEU's last rendez-vous with online exhaustion.

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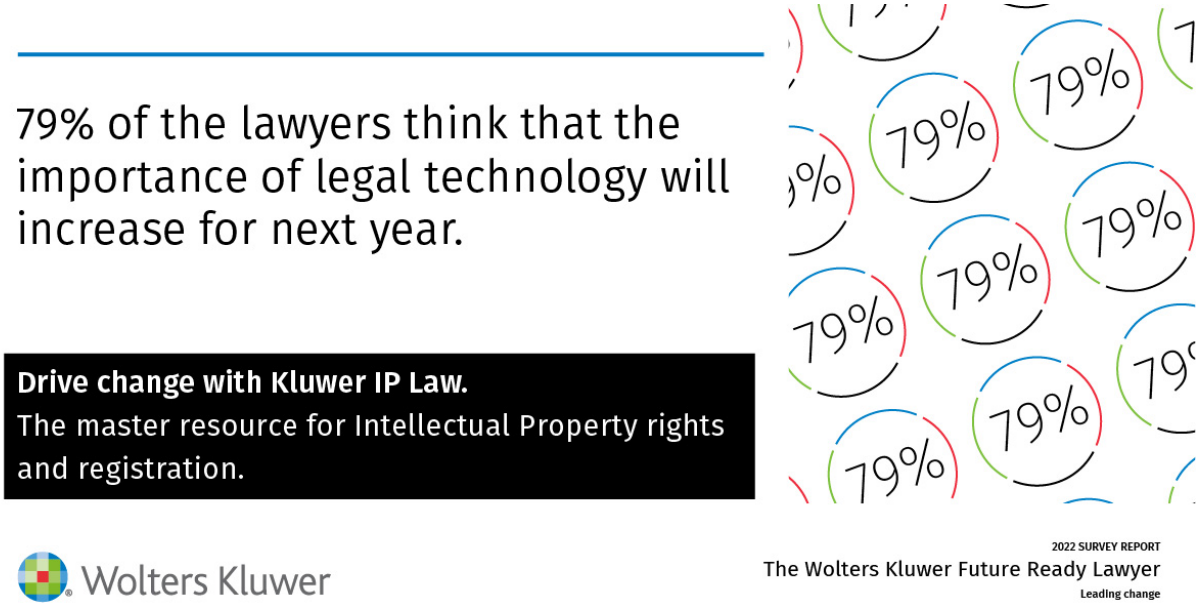


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