Kluwer Copyright Blog

Waiting for Tom Kabinet, a.k.a. why EU copyright needs digital exhaustion, and how the CJEU can help with this – Part 1

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After years of contradictory decisions and *obiter dicta*, on April 2, 2019 the CJEU held the first hearing in *Tom Kabinet* (C-263/18), a Dutch referral that promises to solve once and for good the question of admissibility of digital exhaustion under Art. 4(2) InfoSoc. Against the legislative silence, *Tom Kabinet* puts the Court at a crossroads – literal interpretation and dogmatic respect of traditional concepts versus teleological update of existing norms – and pledges to carry, in the event of a positive response, epochal consequences for the economics and balance of EU copyright law.

The facts

Tom Kabinet, an online platform specialized in the sale of second-hand e-books to its members, was first sued unsuccessfully by the Dutch Publishers Association (NUV) and the General Publishers Group (GAU) before the District Court and Court of Appeal of Amsterdam, and later in front of the District Court of the Hague, which decided to stay the proceedings and refer the case to the CJEU. The referring court asked, in an almost slavish copy of the points raised in *UsedSoft,* (i) whether the right of distribution and its exhaustion under Article 4 InfoSoc covers also the making available of the file via download, for an unlimited period and for a price which corresponds to the economic value of a copy of the work; (ii) whether and under which conditions the transfer of a legally obtained copy implies also consenting to reproductions necessary for the lawful use of the copy (Article 2 InfoSoc); and (iii) whether Article 5 InfoSoc would in any case authorize acts of reproduction of a lawfully obtained copy on which the right of distribution has been exhausted.

Legislative sources at stake and existing case law

The lynchpin of the controversy, Article 4 InfoSoc, implements Article 6 WCT, which marks the international debut of the right of distribution and the principle of exhaustion. Both provisions subordinate exhaustion to the "first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author", while the Agreed Statement on Articles 6-7 WCT clarifies that the words "copies" and "original and copies" refer only "to fixed copies that can be put into circulation as tangible objects".

The limitation to tangible copies characterizes as well the early CJEU case law developing the doctrine of Community exhaustion, which admits exhaustion for sale-style rights but not for service-style rights, and early secondary sources such as the Software and Rental Directives, which exclude exhaustion in the case of rental and communication to the public, and classify as a service the online supply of protected works. Merging these indications with the WCT, the InfoSoc Directive includes the Agreed Statement's limitation of exhaustion to tangible copies (Recital 28), and the exclusion of services and copies made from online services (Recital 29).

While this architecture could work in 2001, when online markets were still nascent and the distinction between traditional and online exploitations clear-cut, with "distribution" covering the circulation of material copies and "communication to the public" referring to dematerialized transmissions, the progressive shift towards digital consumption has revolutionized the setting. Digital works are now offered both as a service, usually from a platform where files are centrally hosted, or as a product, with a full transfer of the file similar to a sale, the latter representing a hybrid that is functionally closer to a distribution than to a form of communication/making available. With digital markets now being dominant, the exclusion of digital exhaustion for sale-like online transactions is destined to have a much higher impact on access, preservation, competition, innovation, and a set of conflicting rights and freedoms than ever expected.

The CJEU's case law

The CJEU has only had the opportunity to intervene directly on the matter in *UsedSoft*. The ruling – harshly criticized – introduced a functional definition of the notion of sale, a distinction between communication to the public and distribution based on the type of transfer of the work, and a consideration of the goals of exhaustion to overcome the good-service dichotomy (see Part 2), adding the principle of equal treatment of tangible and intangible copies equally *vis-à-vis* exhaustion, required by their functional and economic equivalence. The decision's revolutionary potential, however, was limited by the recourse to the *lex specialis* nature of Directive 2009/24/EC (Software II), which was used to justify the departure from WCT and InfoSoc, disregarding the doctrine according to which concepts used in EU secondary law must have in principle the same meaning.

In *Art&Allposters* (C-149/13) – a case concerning tangible supports only and debating the extendibility of Article 4(2) InfoSoc to after-sale modifications of the copy – the Court used an obiter to rule that Recital 28, Article 6 WCT and its Agreed Statement all require a limitation of the notion of "that object" to physical copies. Later on, in *Ranks* (C-166/15), the CJEU circumscribed the scope of *UsedSoft,* ruling out exhaustion in the case of backup and other non-original copies, even if the original support was damaged or destroyed. The attempt of AG Saugmandsgaard Øe to bridge the InfoSoc and Software II Directives with a common reading of the notion of "that copy", motivated by the need to offer a more teleological-oriented approach to existing norms when dealing with digital works, was fully disregarded. On the contrary, in *VOB* (C-174/15) the Court extended the public lending exception of Article 6 Rental II to e-books, despite the reference to

"original" and "copies" made by Article 3 Rental II to define the scope of the right. The CJEU motivated the approach with teleological arguments – maintaining the effectiveness of the exception for cultural promotion goals, and adjusting copyright to new economic developments – but used again the *lex specialis* argument to avoid systematic objections. Most interestingly, however, the Court ruled that EU law does not preclude a Member State from subordinating the application of the public lending exception to the condition of having the distribution right exhausted under Article 4(2) InfoSoc. The resulting paradox is that Member States seem now authorized to introduce digital exhaustion as a requirement for the application of Article 6 Rental II, but – at least theoretically – not under Article 4(2) InfoSoc.

What's at stake in Tom Kabinet

As I analyze more broadly in my recent JIPITEC contribution, solving the interpretative puzzle on the admissibility of digital exhaustion requires the CJEU to properly qualify the online transfer of digital works, and thus to draw the borders between sale and license, communication to the public and distribution, and goods and services. A positive decision may have a beneficial impact on the internal consistency and teleological coherence of the EU copyright system, solving a set of interpretative short-circuits that have afflicted the recent CJEU's case law while also producing positive economic effects.

Part 2 of this post will illustrate content and implications of the three classificatory dichotomies, explain why EU copyright law needs digital exhaustion, and propose interpretative solutions for the CJEU to help with this, leveraging the occasion offered by the *Tom Kabinet* referral.

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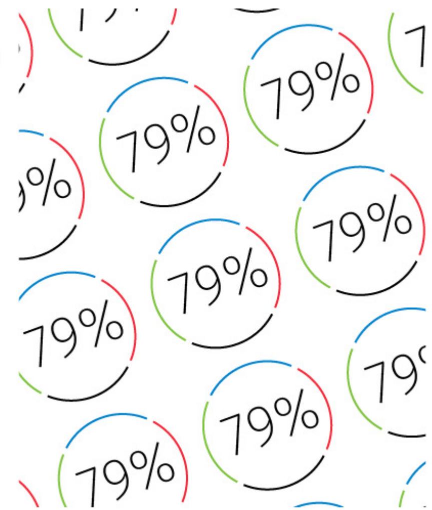

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