Kluwer Copyright Blog

Ranks aftermath, or TomKabinet reference versus reality

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Back in 2016, the CJEU examined the question of whether backup copies of software could be resold, following the exhaustion of the right of distribution pursuant to the judgment in C-128/11 *UsedSoft*. In C-166/15 *Ranks (Microsoft)*, the Court ruled that, although the initial acquirer of software can resell that copy and his licence, he cannot provide his backup copy to the subsequent acquirer without the authorisation of the right holder. As reported previously on this blog, the overall outcome has been that the backup copies cannot be resold. However, an even more fascinating question raised by the judgment is how a lawful acquirer could resell his copy of the software if the acquired original copy is lost, damaged or stolen, as suggested by the Court in para. 53 of the *Ranks* judgment.

The practical outcome in *UsedSoft* depended very much on the specific circumstances of the case. No transfer of a copy was involved in the resale organised by *UsedSoft*. The subsequent acquirer would obtain a licence and be pointed to the software vendor's webpage to download a copy of an installation file. Whereas the judgment essentially concerned transferability of a software licence, it did not address the question of obtaining an installation file when it is not freely available for download on a vendor's webpage. In the *Ranks* case, on the other hand, the Court had to deal with precisely the aspect of obtaining a copy, and in the specific context of backup copies. Whereas the situation in the national proceedings was, of course, more nuanced, the CJEU, in essence, chose to answer the question of whether or not a backup copy could be provided to the subsequent acquirer of a licence. That question has been answered in the negative: backup copies may not be provided to a new acquirer without the authorisation of the right holder.

As I have commented elsewhere, submitting transfer of backup copies to the right holder's authorisation is reasonable in the light of practical considerations and general interest in the authenticity of the copies in circulation. However, the remaining practical question is how an acquirer of a "used" licence could obtain a copy of an installation file if the original acquirer does not possess an original copy and is not allowed to transfer a backup copy. As the Court suggested in *Ranks* that the loss of an original copy cannot deprive of the possibility to resell it altogether, the question is whether a subsequent acquirer could claim a copy from the software vendor and whether a vendor would be in a position to refuse. Interestingly, the latest Microsoft Office 2019 Desktop License Terms suggest an answer. Microsoft (plaintiff in the *Ranks* case) surprisingly sanctions the transfer of backup copies downloaded from their webpage to third parties.

First, the License Terms provide that a licensee "may download a backup copy of the software from (office.com/backup) or order it from Customer Support (aka.ms/mssupport) and may use that backup copy to transfer the software if it was acquired as stand-alone software". Next, if the software has been acquired as stand-alone (and not pre-installed on a device), such backup copy can be transferred to another device belonging to the same person or a third party, provided that two conditions are met. First, the person transferring software (i.e. backup copy) must be the first licensed user. Second, every time software is transferred to a new device, it must be removed from the prior device. Last, the provisions of the section do not apply to software acquired in the European Economic Area (EEA) and transferred within the EEA, in which case "any transfer of the software and the right to use it must comply with applicable law".

Hence, whereas according to the *Ranks* judgment, the vendor is under no obligation to allow transfer of backup copies upon the "resale" of used licences, Microsoft actually explicitly authorises the transfer of backup copies, albeit downloaded from their webpage. Obviously, the terms apply solely to stand-alone software and not to subscription-based services such as Microsoft Office 365. Nevertheless, by permitting the transfer of backup copies, Microsoft de facto facilitates the resale of particular licences in a somewhat controlled manner.

What implications do the developments have for the upcoming C-263/18 *TomKabinet* case on resale of e-books? Obviously, software is rather different from e-books or other types of copyright-protected subject matter. Enabling the transfer of purchases between user accounts within a highly centralised distribution system such as Amazon Kindle might not unduly prejudice the interests of the right holders while serving certain user interests, as explored elsewhere. However, the application of the exhaustion principle alone might not achieve a comparable outcome. The rule originally capable of attaining some degree of balance might produce rather different results in the digital realm. Whereas exhaustion and copyright, in general, are not well-equipped for dealing with the users' interests, a different angle might be necessary.

For instance, the Council has recently adopted the Directive on certain aspects concerning contracts for the supply of digital content and digital services (not yet published in the Official Journal). Article 10 of the Directive provides that a consumer should be entitled to remedies for lack of conformity of digital content if restrictions on the use of the content arising from third-party rights (and in particular intellectual property) are in breach of the subjective and objective criteria of conformity. Although it remains to be seen how the provision will play out in practice, it certainly leaves more room for appreciating the differences (and respective consumer expectations) of the types of digital content than the all-or-nothing approach of the exhaustion rule under the InfoSoc Directive.

UsedSoft has not facilitated a large-scale secondary market for software. Nor has *Ranks* prompted all vendors to prohibit the handover of backup copies. Likewise, it is probably unlikely that the judgment in *TomKabinet* will decide once and for all the boundaries of the copyright holder's control over digital copies solely on the basis of the exhaustion rule. Hence, the importance of the reference is in the practical implications of the ruling, which might not be too revolutionary, given the experience in *UsedSoft* and *Ranks*. The adoption of the Digital Content Directive might encourage to consider an alternative way to deal with a possible need to restrict the reach of the exclusive rights under copyright while providing greater flexibility for appreciating the variety of digital content and dissemination channels.

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