Kluwer Copyright Blog

Digital exhaustion may be needed but has no room under the InfoSoc Directive – says AG Szpunar in Tom Kabinet

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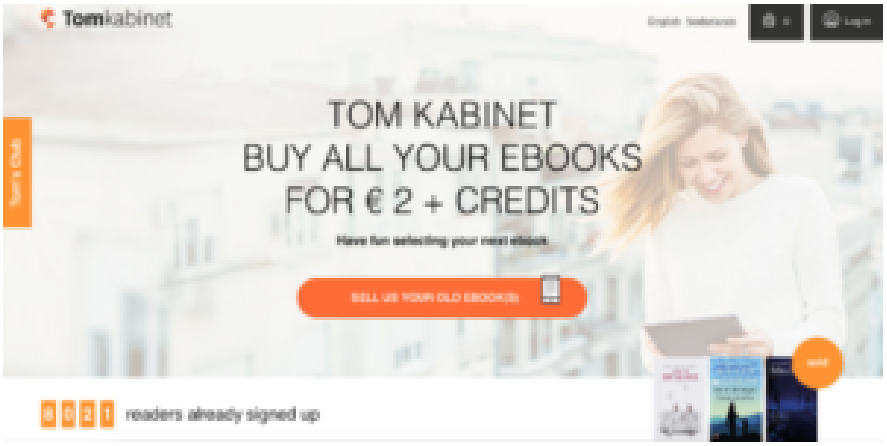
On 10 September 2019, AG Szpunar delivered his opinion in Nederlands Uitgeversverbond and Groep Algemene Uitgevers v. Tom Kabinet (C-263/18), concerning the lawfulness of Tom Kabinet's sale of second-hand e-books. The referring court asked the CJEU whether the supply of e-books by downloading for permanent use is covered by the right of distribution under Article 4 InfoSoc, whether the right is exhausted after the first transfer made with the right-holder's consent, and whether the acts of reproduction necessary to transfer the second-hand e-book may be deemed lawful.



The AG Opinion

To answer these questions, the Opinion proceeds through three layers of argument – legislative, case-law based and teleological.

Legislative arguments. The core point lies in the qualification of the download of digital copies as an act of distribution (Article 4 InfoSoc) or of communication to the public (Article 3 InfoSoc). The AG argues that the drafters of the WCT, aware of the "mixed nature of downloading", opted for an "umbrella solution" which, while favouring the right of communication to the public, did not preclude contracting parties from classifying downloads under the distribution right. However, the Opinion believes that since the WCT sets a minimum level of protection, States opting for distribution would need to exclude exhaustion in any event, in order to match the degree of protection offered where the act is qualified as communication to the public, which is not subject to the rule.

After minimizing the relevance of the Agreed Statements to the WCT, the AG focuses on the

position adopted by the InfoSoc Directive when incorporating the Treaty, as described by Recitals 24, 25, 28 and 29. The Opinion admits their ambiguity and the inappropriateness of the generalized qualification of online sales as services (Recital 29), but has no doubt that they place "all forms of online exploitation of the works" under Article 3 Infosoc. For the AG, a literal interpretation of Article 4, which links distribution to the sale or other transfer of ownership, also confirms this reading, since (a) digital files are intangible, thus not subject to the right of property and (b) parties' rights and obligations with regard to the making available of works online are regulated by conventions, and their freedom of contract cannot be limited by exhaustion.

Digital exhaustion would also be technically hindered by the right of reproduction (Article 2 Infosoc). Absent the right-holder's consent, the reproductions necessary for the resale of the copy should be deemed unlawful, since they are not covered by any exception under Article 5 InfoSoc, nor are the conditions of Article 5(1) met.

Case law. The AG begins by distinguishing *Tom Kabinet* from *UsedSoft*, not only in light of the *lex specialis* nature of the Software Directive but also the different features of software.

The Opinion emphasizes that software is a tool that must be run on a computer to be used, making the nature of the medium of distribution irrelevant. Since it needs maintenance and updates, it is always commercialized through a license, thus justifying the broad interpretation given to the concept of "sale", not necessary for other categories of works, where tangible copies are distributed via sales and intangible copies via licenses. Software is also used longer than traditional works, and is subject to quick obsolescence and loss of value. Both features minimize the impact of exhaustion on right-holders in the software market. The qualification of downloads under the distribution right follows the absence in the Software Directive of the right of communication to the public, since referring to Article 3 InfoSoc "would have undermined the *lex specialis* nature of Directive 2009/24". The application of exhaustion is also made possible by the fact that the Software Directive does not exclude the principle in the case of intangible copies, and provides for an exception (Article 5(1)) that allows all reproductions necessary for the use of the program by the lawful acquirer.

As to the extension of the public lending exception to e-books in *VOB*, the AG limits its importance by mentioning the *lex specialis* nature of Directive 2006/115, the public policy objective underlying the exception, and the fact that the WCT does not cover lending. He acknowledges that, by admitting that Member States can subordinate the exception to the lawful first sale of the digital copy, the CJEU has implicitly accepted digital exhaustion, but concludes this is irrelevant for the *Tom Kabinet* case.

Teleological arguments. The AG shows awareness of the teleological arguments supporting digital exhaustion, but does not deem them sufficient to sidestep a literal interpretation of legislative sources, since most of them relate to general economic policies belonging to the legislator, and they are also counterbalanced by other similarly strong economic arguments. Anyway, downloading with a permanent right to use is a form of enjoyment of works about to be "relegated to the past", thus by ruling in favor of digital exhaustion the CJEU would "resolve a problem that does not really need to be resolved" anymore.

What should the CJEU do?

In light of recent CJEU trends, the outcome reached by the AG does not come as a surprise. In fact,

a literal interpretation of the InfoSoc Directive militates against digital exhaustion. Yet, as I have already illustrated in a previous post (here) and in an essay in JIPITEC (here), several contextual, teleological and economic arguments demonstrate the need for the CJEU to intervene on the gap and provide an interim response in favor of its admissibility. Along the same lines, the Court may need to rework a number of elements of the AG Opinion in order to offer comprehensive answers that ensure systematic consistency and withstand the evolution of markets and technologies.

The first issue requiring more attention is the good-service dichotomy, its relationship with the notions of sale and license, and its role in defining the subject matter of Articles 3 and 4 InfoSoc. The Opinion disregards as ambiguous the reference to "services" used by Recital 29 to define the scope of exhaustion, focusing only on the boundaries between the rights of distribution and communication to the public. In this way, the AG omits – as irrelevant – clarifying whether works offered online should be qualified as goods or services, and reduces the distinction between distribution and communication to a mere separation between material and online forms of exploitation. This simplification neglects the connections the InfoSoc Directive created between the notions of distribution, sale and goods, and between communication/making available, license and service, without reflecting on their implications. As a result, the Opinion does not assess whether supervening systematic changes (such as the Consumer Rights Directive's (2011/83/EU) qualification of digital content as *tertium genus* between goods and services) or shifts in digital business models have made such notions and connections outdated, and with what interpretative consequences. A more articulated analysis of the three classificatory dichotomies (sale-license, good-service, communication-distribution) and their interplay would help in offering a comprehensive contextual answer to the problems raised in *Tom Kabinet*, and an updated teleological reading of the InfoSoc provisions involved, as I have suggested here.

By downplaying the language of Recital 29, the AG also overlooks its link with the CJEU's early differentiation between sale-like and service-like rights to draw the borders of exhaustion. Closely linked with this omission is the missing reference to the essential function of copyright as metrics to guide the balance between exclusive rights and limitations. From *Deutsche Grammophon* on, the concept was determinant for defining the scope of exhaustion, excluding its application every time where, due to the characteristics of the work, the control over subsequent exploitations was needed to ensure that right-holders obtained an adequate remuneration. The impact assessment conducted by the AG instead focuses only on the piracy risks triggered by the application of Article 4(2) Infosoc in the digital environment, and not on whether right-holders have obtained an adequate remuneration from the first transfer of the digital file – particularly when its price, as in *Tom Kabinet*, corresponds to the economic value of the copy, and new technological measures would minimize the risk of illicit uses.

Attention should also be paid when introducing *dicta* which may have potentially broader implications. In order to maintain the neat distribution-communication distinction, the AG argues that Article 4 InfoSoc cannot be extended to digital files, since intangibles may not be an object of property. If followed, this classic doctrinal conclusion, on which there is no convergence among Member States nor across EU sources, may trigger unintended consequences in other areas of EU law. Analogously, holding that freedom of contract shall prevail in any case and cannot be curtailed by the recognition of exhaustion would represent a stark rejection of the *UsedSoft* doctrine, banning once and for all the functional reclassification of contracts on the basis of their economic meaning. Last, limiting the functional reading of the sale-license dichotomy to software would result in accepting a *de facto* fragmentation of the notion of sale in different copyright areas, with questionable effects on the internal consistency of EU copyright law.

Due to the recurrent use of the *lex specialis* argument, the CJEU should also minimize the risk of systemic contradictions. The reference to digital exhaustion in *VOB* cannot be belittled as a clerical mistake, but ought to be explained. Similarly, it is not possible to uphold *UsedSoft* and its digital exhaustion in the case of downloaded software, and at the same time state – as the AG did – that the minimum level of protection set by the WCT compels contracting parties to exclude exhaustion when they opt for the distribution right under the umbrella solution of Article 8 WCT.

Last, the applicability of Article 5(1) InfoSoc also deserves clarification, particularly *vis-à-vis* the CJEU's case law. The Opinion offers a debatable interpretation of the features of the temporary reproduction necessary to transfer e-books in a second-hand sale, with the attribution of an independent economic relevance to the act, and a formalistic distinction between reproduction and multiplication.

The task the CJEU is facing is not an easy one. The calibration of the copyright balance is again at stake. With the EU legislator absent, the hope is that the Court will not shy away from the task and will, to the extent possible, set things right.

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by sale or otherwise.

">Distribution (right of), European Union, Exhaustion
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