Kluwer Copyright Blog

Sealing the Exhaust Valve

Anthony Catton (Queen Mary University of London) · Monday, December 30th, 2024

On 23 October 2024, the five-year dispute between Valve and UFC-Que Choisir has come to a close. With the French Supreme Court upholding the Paris Court of Appeal's decision, and ruling that consumers cannot resell digital copies of videogames distributed online. Putting the final seal on the question of digital exhaustion in France, and ending what was, and what seems likely to be, the last outlier in the EU on digital exhaustion.

Photo by Igal Ness on Unsplash

A brief history of exhaustion in an EU context

At the heart of this dispute lies the principle of exhaustion (or the 'first sale doctrine', as it goes by in the United States) – which establishes that the right of distribution is exhausted following the first sale of a copy of a work. In other words, the principle provides consumers with the right to resell goods (such as books, CDs and DVDs) to third parties, facilitating a marketplace for second-hand goods.

In the EU, this principle has been strongly tied to the tangible nature of goods, and indeed as Recital 28 of the InfoSoc Directive 2001/29/EC confirms, exhaustion only pertains to "the exclusive right to control distribution of the work incorporated in a tangible article." A sentiment likewise echoed by Recital 29, which establishes that exhaustion does not apply to services and on-line services. However, parallel to this is the Software Directive 2009/24/EC, which by contrast, does not include any limitations on the application of exhaustion. And in 2012, following the CJEU's decision in *Usedsoft*, it has been confirmed that for second-hand software licenses, there *is* scope for exhaustion provided there was a sale.

As such, in the EU, there are two approaches to digital exhaustion, where its application depends on whether the digital good is

1) a work that falls under the InfoSoc Directive, or

2) is software, and thus falls under the Software Directive.

Historically, there was some debate regarding the application of the exhaustion to the sale of digital videogames, as videogames are typically comprised of audiovisual elements that would traditionally fall under the InfoSoc Directive, as well as software components, that would ostensibly fall under the Software Directive.

In 2014, the scope for debate was curtailed, with the CJEU in *Nintendo v. PC Box* concluding that videogames constituted "complex matter" and were thus protected under the InfoSoc Directive. Moreover, in 2019 the CJEU in *Tom Kabinet* held that there are two distinct approaches to exhaustion. Concluding that e-books could not be exhausted, and that the *Usedsoft* decision only applied to software (see more here). As such, it appeared that the question of exhaustion for digital videogames had been resolved in the EU.

However, three months prior to *Tom Kabinet* lay an outlier – a decision reached by the Paris Court of First Instance, which following a different approach, had found that the exhaustion principle *could* apply to sale of digital videogames.

The First Instance Decision

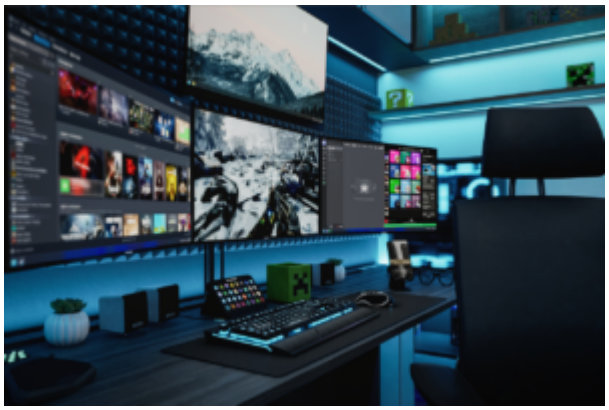

Image by Brayear Rodriguez from Pixabay

In 2015, UFC-Que Choisir – A French Consumer Rights Association began legal proceedings against the Valve Corporation – a videogame developer, publisher, and operator of Steam. UFC brought several claims against Valve, contending that Steam's Subscriber Agreement included unfair contractual terms, that it violated data protection law, and that it ran contrary to copyright law.

Of particular interest was UFC's claim in respect to clause 1.C of the Steam Subscriber Agreement – which prohibited the resell or transfer of a user's steam account and their accompanying library of digital games. UFC argued that this clause undermined the principle of free movement of goods in the EU, and was in conflict with the exhaustion principle. Conversely, Valve argued that because downloaded videogames constituted intangible copies, there could be no exhaustion.

Finding in favour of UFC, the First Instance Court concluded that because videogames included

elements of traditionally protected works as well as software, both the InfoSoc Directive and Software Directive applied to videogames. The court further noted that both directives established the principle of exhaustion on the first sale of a copy, and did not make a distinction between material or immaterial copies. As such, it concluded that exhaustion should apply irrespective of the approach to distribution. And in doing so, the court supported its conclusion relying on *Usedsoft* and the CJEU's finding that the principle of exhaustion applied to software licenses, even where the first sale was made via download.

This decision was rather controversial, with one major concern being that in its application of *Usedsoft*, the court effectively equated videogames with software. An approach difficult to reconcile with the CJEU's judgement in *Nintendo* which had established that videogames were "complex matter" that could not be reduced to their software components, and which accordingly fell under the remit of the InfoSoc Directive. Moreover, following the *Tom Kabinet* judgement shortly thereafter, the decision seemed even further misaligned with European jurisprudence.

Unsurprisingly then, the Court of Appeal ended up adopting a different approach.

CoA decision and reasoning

In 2022, the Court of Appeal overturned the first instance decision, and ruled that the principle of exhaustion did not apply. Following the rhetoric of the CJEU in *Nintendo*, the Court of Appeal held that videogames could not be reduced to computer programs, that they constitute "complex matter", and are thus protected together under the InfoSoc Directive. Deciding therefore that the Software Directive, *Usedsoft*, and the principle of exhaustion are not applicable to digital purchased copies of videogames.

In reaching its decision, the Court of Appeal also highlighted and directly referenced the analysis applied in *Tom Kabinet* that:

"Even if an e-book were to be considered complex matter… comprising both a protected work and a computer program eligible for protection under Directive 2009/24, it would have to be concluded that such a program is only incidental in relation to the work contained in such a book…an e-book is protected because of its content, which must therefore be considered to be the essential element of it"

And as such, concluded that like e-books, videogames should not be reduced to their computer program, as they too include original and essential content that goes beyond the software, which is merely incidental.

Supreme Court Decision

In October 2024, the French Supreme Court delivered a brief and direct judgement, and likewise

concluded that exhaustion did not apply to digitally downloaded videogames. Adopting the same reasoning as the Court of Appeal, and similarly applying the rhetoric of *Nintendo* and *Tom Kabinet*, it reiterated that:

- Unlike the Software Directive, the exhaustion principle outlined in the InfoSoc Directive only applies to tangible copies of protected works.
- That videogames are complex works with various non-software elements and that videogames are protected together as a whole.
- That videogames are governed by the InfoSoc Directive, and therefore,
- the principle of exhaustion would not apply.

Moreover, the Supreme Court also declined to refer the issue to the CJEU, finding that there was no reasonable doubt over the interpretation and application of EU law. Eliminating any lingering uncertainty about the application of the exhaustion principle to digitally downloaded videogames.

Summary, closing thoughts and commentary

From the perspective of consistency with EU law, the French Supreme Court decision is a welcome one. Not only does it confirm that France's application of the InfoSoc Directive and the Software Directive to videogames follows the CJEU's approach in *Nintendo*, but also, in rejecting the application of *Usedsoft*, it adopts an approach that mirrors those reached elsewhere in the EU. From the perspective of the videogame industry, and especially for digital distribution platforms such as Steam and the Epic Store, the decision is a clear win. As it consolidates their control over potential secondary markets, whilst giving them effective tools to tackle account selling and key selling, with the latter practice being a particular concern for the industry.

Conversely, this decision signals the end to what has arguably been the last remaining hope for many pro-digital exhaustion advocates. As both the decision, and the refusal to refer the case to the CJEU seems to have exhausted (pun unfortunately intended) any remaining avenues for the digital exhaustion debate. Moreover, regardless of whether you are 'for' or 'against' digital exhaustion, it is regrettable that the French Supreme Court declined to refer the matter, as there are still some outstanding questions. For instance, on the notion of a sale, and the relationship between distribution and communication. As a final observation, there is some arguable concern with the Court of Appeal's analysis which treats the software in videogames as incidental in the same way that *Tom Kabinet* ruled that software for e-books is incidental. Indeed, as Trapova and Fava have observed in relation to the *Tom Kabinet* ruling, the relationship between software and videogames is not directly analogous to that of software and e-books. And there are good arguments to suggest that software and videogame mechanics are part of the essential elements and content of a videogame. As such, whilst the application of digital exhaustion to videogames in France and the EU appears fairly straightforward, there are nonetheless some overarching concerns which remain.

To make sure you do not miss out on regular updates from the Kluwer Copyright Blog, please subscribe here.

This entry was posted on Monday, December 30th, 2024 at 8:13 am and is filed under The right of distribution is set out in Article 4(1) of Directive 2001/29/EC (the Copyright Directive or Infosoc Directive), which requires that Member States shall provide for authors, in respect of the original of their works or of copies thereof, the exclusive right to authorise or prohibit any form of distribution to the public

by sale or otherwise.

“>Distribution (right of), Exhaustion, France, Infringement
You can follow any responses to this entry through the Comments (RSS) feed. You can leave a response, or trackback from your own site.