

# A Plea for Digital Exhaustion in EU Copyright Law

by Caterina Sganga\*

**Abstract:** With the Dutch referral of the Tom Kabinet case (C-263/18) in July 2017, the CJEU will soon have its final say on the admissibility of digital exhaustion under Art. 4(2) InfoSoc. Until now, years of national decisions and the CJEU's obiter dicta have provided a patchwork of inconsistent answers, and seemingly rejected the extension of the principle to digital works upon a strict literal interpretation of EU and international sources. Yet, the changed characteristics of digital markets have outdated the InfoSoc Directive and the classificatory dichotomies (sale vs license, distribution vs communication to the public, good vs service) on which the boundaries of exhaustion have been drawn. At the same time, the exclusion of digital exhaustion has tilted the balance between copyright and the protection of competition, secondary innovation, fundamental freedoms and

other conflicting fundamental rights, while the direct and indirect rulings on the matter have departed from the principles developed in the earlier CJEU's case law on Community exhaustion and caused systematic and teleological inconsistencies in the judicial development of EU copyright. Building on these premises, and on the basis of a set of legal and economic arguments, this paper advocates for the introduction of a general principle of digital exhaustion in EU copyright law and, awaiting an unlikely legislative intervention, it proposes two routes to achieve its judicial recognition: one uses a contextual/teleological interpretation to maintain the effectiveness of Article 4(2) InfoSoc; the other theorizes the possibility of a claim of invalidity of the provision under Article 52(1) CFREU, for disproportionate violation of Articles 7, 16 and 17 CFREU.

**Keywords:** Digital exhaustion; exhaustion; CJEU; EU copyright; UsedSoft; Tom Kabinet; WCT; Article 4 InfoSoc; copyright balance; CFREU; fundamental rights; Erschöpfungsgrundsatz; Verbreitungsrecht; e-books

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## A. Introduction

1 With the recent *Rechtbank Den Haag* (District Court of the Hague)'s referral in the *Tom Kabinet* case<sup>1</sup> on the alleged copyright infringement committed by

an internet platform that commercializes second-hand e-books, the Court of Justice of the European Union (CJEU) will soon be called to have its final say on the controversial issue of digital exhaustion in EU copyright law.

2 The questions referred to the Court are strikingly similar to those addressed in *UsedSoft*,<sup>2</sup> where the CJEU used a markedly teleological interpretation of the Software Directive II<sup>3</sup> to admit the exhaustion of the distribution right over a software commercialized through a license agreement and downloaded from the net. In the aftermath of the

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1 *Rechtbank Den Haag, Nederlands Uitgeversverbond and Groep Algemene Uitgevers v Tom Kabinet Internet BV et al*, C/09/492558/ HA ZA 15-827 (12 July 2017), NL:RBDHA:2017:7543, finalized with the formalization of the questions referred in March 2018.

2 *Case C-128/11 UsedSoft GmbH v Oracle International Corp.* EU:C:2012:407.

3 Directive 2009/24/EC of 23 April 2009 on the legal protection of computer programs [2009] OJ L111/16 (Software Directive II).

decision, commentators started debating whether the same policy-oriented, functional approach could lead to the extension of exhaustion to every digital work under Article 4(2) InfoSoc<sup>4</sup> which, thanks to the relative clarity of Recitals 28 and 29 InfoSoc and Article 6 of the WIPO Copyright Treaty (WCT)<sup>5</sup> – binding for the EU and implemented through the InfoSoc Directive – has consistently been interpreted as limiting the principle to works fixed on a tangible medium.<sup>6</sup> The advisability of complementing the purely positivistic interpretation of the provision with a deeper consideration of the social, economic and cultural implications of exhaustion, and of its role in facilitating the achievement of copyright goals is at stake.<sup>7</sup>

- 3 Introduced to balance between the user's property right over the material support and the author's exclusive rights over her intellectual creation, the principle shortly became a tool to reconcile copyright protection with the need to ensure access to and availability of protected works, defend competition and the development of secondary markets, foster innovation, and guarantee the enjoyment of a set of conflicting rights and freedoms – chiefly property, privacy and the freedom of movement of goods.<sup>8</sup> Similar aims, with a focus on internal market arguments, were also behind the CJEU's development of the principle of Community exhaustion from 1974,<sup>9</sup> marking one of the first harmonizing interventions on national copyright laws.

- 4 In the material world, the principle has never faced real challenges. Its impact on the rightholder's exploitation of the work is limited, since the "wear-and-tear" characteristics of the support render the competition between original and secondary markets insignificant.<sup>10</sup> The copy is subject to physical deterioration, which decreases its marketability and value time after time, and its alienation requires the seller's surrender of her possession, which implies renouncing to the enjoyment of the protected work.<sup>11</sup> From a legal perspective, the boundaries of exhaustion are made clear by the tangible nature of the medium and its commercialization via implied sale contracts, which facilitate the distinction between distribution and communication to the public, between support and intellectual creation, and between the property right over the former, and the copyright over the latter.<sup>12</sup>

- 5 The same cannot be said for the digital environment. Here, the quality of the copy does not deteriorate over time, and its enjoyment is not rival. These features increase the risk of piracy, and cause the secondary market to potentially impact on the sales of the originals – both elements which have led legislators to cautiously avoid extending the principle to dematerialized copies.<sup>13</sup> Courts have also consistently rejected the construction of digital exhaustion, maintaining that the characteristics of digital works and of their commercialization do not comply with the literal interpretation of the requirements set by copyright statutes for the operation of the principle.<sup>14</sup> In fact, the intangibility of the copy, commercialized via written licenses that do not formally transfer its ownership, triggers its qualification as a service (while exhaustion is limited to goods), and causes the definition of its transfer as an act of communication to the public (whereas exhaustion is limited to distribution).

4 Directive 2001/29/EC of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society [2001] OJ L167/10 (InfoSoc Directive).

5 WIPO Copyright Treaty, S. Treaty Doc. No. 105-17 (1997); 36 ILM 65 (1997).

6 Similar considerations can be found in Peter Bräutigam, 'Second-Hand Software in Europe – Thoughts on the Three Questions of the German Federal Court of Justice Referred to the Court of Justice of the European Union', [2012] 1 Computer Law Review International 1, 1-2.

7 A particular emphasis on this point is made by Peter Mezei, 'Digital First Sale Doctrine Ante Portas – Exhaustion in the Online Environment', [2015] 6 JIPITEC 23, 55-56, and in more detail in Id., *Copyright Exhaustion. Law and Policy in the United States and the European Union* (CUP 2018), 139-148. See also Giorgio Spedicato, 'Online Exhaustion and the Boundaries of Interpretation' in Roberto Caso and Federica Giovanella (eds), *Balancing Copyright Law in the Digital Age - Comparative Perspectives* (Springer 2015), 43-45.

8 For a concise summary on the history of the first sale doctrine in US copyright law, see Aaron Perzanowski and Jason Schultz, 'Digital Exhaustion' [2011] 58 UCLA Law Review 889, 908 ff.

9 The landmark decision is Case C-78/70 *Deutsche Grammophon Gesellschaft GmbH v Metro-SB-Großmärkte GmbH & Co. KG*. [1971] ECR I-499. For a broader overview see Nial Fennelly, 'Rules and Exceptions: Freedom of Movement and Intellectual Property Rights in the European Union' in Hugh C. Hansen, *International Intellectual Property Law & Policy*, Vol 5 (Juris Publishing 2003), pp. 33-4 – 33-11.

10 On this comparison, arguing that the differences between material and digital markets justify the ban of digital exhaustion, see Andreas Wiebe, 'The economic perspective: exhaustion in the digital age' in Lionel Bently, Uma Suthersanen and Paul Torremans (eds), *Global Copyright Three Hundred Years Since the Statute of Anne, From 1709 to Cyberspace*, (Edward Elgar 2010), 321 ff.

11 Ibid 323. See also R. Anthony Reese, 'The First Sale Doctrine in the Era of Digital Networks', [2002-2003] 44 Boston College Law Review 57.

12 For a comprehensive analysis of the theoretical obstacles posed by the characteristics of the digital environment vis-à-vis the construction of exhaustion, see Stravroula Karapapa, 'Reconstructing copyright exhaustion in the online world', [2014] 4 IPQ 307.

13 Along these lines, and with ample references, see Wolfgang Kerber, 'Exhaustion of Digital Goods: an Economic Perspective', [2016] 8(2) Zeitschrift fuer Geistiges Eigentum/Intellectual Property Journal 149, 153 ff.

14 See the selection of cases commented on by Mezei (n 7), paras 65-94, and related ample bibliography, with a focus on the EU and the US.

6 Realizing the side-effects of a strict approach to the tangible-intangible dichotomy in other areas of copyright law, the CJEU has tried to minimize them through distinguishing decisions and *dicta*, based on adaptive readings that stand in stark contrast with the rigid attitude showed in the field of exhaustion. Such a dissonance is the inevitable result of the application of different interpretative methods to the same legislative texts. The exclusion of intangible copies from the scope of Article 4(2) InfoSoc is the product of a strictly positivistic approach, which has never reflected nor internalized the fact that when the WCT and the Infosoc Directive were conceived, the dematerialization of protected works and the development of digital markets were still embryonal, and their implications were far from being foreseen and considered.<sup>15</sup> On the contrary, when compelled – like in *UsedSoft* – to ensure that otherwise outdated acts still realize their goals, and that copyright perform its functions and maintain its internal balance, the Court has adopted a much more flexible teleological interpretation, based on the notion of functional equivalence, and with conclusions adjusted to the new technological developments.<sup>16</sup> To justify such an asymmetry in the approaches, systematic arguments have been used à la carte, leading to the recurrent distinction between the InfoSoc Directive and other subject-specific acts. This has resulted in the construction of a system where the InfoSoc Directive remains a weak *lex generalis*, surrounded by a plethora of *leges speciales* that derogate from the tangible-only reading of terms such as “copy”, “object”, “original” and the like, and admit the application of exhaustion in the digital environment.

7 The clash of precedents is not only synchronic, but also diachronic. The rejection of digital exhaustion represents a patent departure from the balancing principles that have characterized the judicial harmonization of EU copyright since the 1970s, when the doctrine of Community exhaustion made its debut in the jurisprudence of the CJEU to strike a balance between copyright and fundamental freedoms.<sup>17</sup> Every time the Court hints at the literal limitation of exhaustion to tangible copies, there is no adequate consideration of the features of digital markets, and of the extent to which their shortcomings could at least be partially addressed through the operation of the principle. The Luxembourg judges seem to ignore that digital rightholders have the possibility to block the development of secondary markets, control the threats coming from potential competitors, and

maintain the ability to price-discriminate through market segmentation more than in the material world.<sup>18</sup> It does not appear to matter that works which would easily keep on circulating online could be put out-of-commerce in no time; that access to protected works can be more tightly constrained by a technologically enforced exclusivity, while their use is subject to a more pervasive control, with a much stronger impact on users’ privacy and property rights and interests,<sup>19</sup> and a massive backlash on decentralized innovation.<sup>20</sup> And while the balance between free movement of goods, competition and copyright is significantly tilting towards the latter, the CJEU’s case law remains anchored to a rigid literal interpretation of legislative sources, without exploring any alternative route, nor performing any reality check to test whether or not the exclusion of digital exhaustion is necessary to protect the specific subject matter and essential function of copyright. This is even more striking if one considers that exhaustion-like arguments are commonly used in the judicial development of other copyright doctrines, the chief example being the construction of the boundaries of the right of communication to the public (Article 3 InfoSoc).<sup>21</sup>

8 The majority of commentators believe that a legislative reform is needed to tackle the problem and adapt the notion of exhaustion to the digital environment.<sup>22</sup> Unfortunately, the EU legislator does not seem to share the same opinion. After a meteoric appearance in the public consultation on the modernization of EU copyright rules,<sup>23</sup> the

15 Ibid paras 183 ff.

16 Explained in economic terms by Antoni Rubi-Puig, ‘Copyright Exhaustion Rationales and Used Software: a Law and Economics Approach to Oracle v UsedSoft’ [2013] 4(2) JIPITEC 159.

17 On which more below, part C.I.

18 As highlighted, inter alia, by Stephen M Maurer, ‘Copyright and Price Discrimination’ [2001-2002] 23 Cardozo L Rev 55; Id, ‘Price Discrimination, Personal Use and Piracy: Copyright Protection of Digital Works’ [1997] 45 Buff L Rev 845; Yockai Benkler, ‘An Unhurried View of Private Ordering in Information Transactions’ [2000] 53 Vand L Rev 2063; James Boyle, ‘Cruel, Mean, or Lavish? Economic Analysis, Price Discrimination and Digital Intellectual Property’ [2000] 53 Vand L Rev 2007; Glynn S Lunney jr, ‘Copyright’s Price Discrimination Panacea’ [2008] 21 Harv JL & Tech 387; William Fisher, ‘When Should We Permit Differential Pricing of Information’ [2007] 55 UCLA L Rev 1; Perzanowski-Schultz (n 8), 901-907; with specific regard to software products, see Puig (n 16), paras 43-71.

19 Perzanowski-Schultz (n 8), at 906-907; already Julie Cohen, ‘The Right to Read Anonymously: A Closer Look at Copyright Management in Cyberspace’ [1996] 28 Conn L Rev 981.

20 Perzanowski-Schultz (n 8), at 907.

21 See more below, part C.III. See also in this respect the analysis of Valerie Laure Benabou, ‘Digital Exhaustion of Copyright in the EU or Shall We Cease Being so Schizophrenic?’ in Irini A. Stamatoudi (ed), *New Developments in EU and International Copyright Law* (Wolters Kluwer 2016), 351-378.

22 Eg Mezei (n 7), paras 182, 191, 195, who notes, however, that several attempts of legislative amendment have already failed; see also Eleonora Rosati, ‘Online copyright exhaustion in a post-Allposters world’ [2015] 10(9) JIPLP 673, 680-681, but contra Karapapa (n 12), 309.

23 Commission, ‘Public Consultation on the Review of the EU

matter has disappeared in subsequent preparatory documents, without even being mentioned in the context of the Digital Single Market Agenda, where the cross-border commercialization of digital goods plays a central role.<sup>24</sup>

- 9 Contrary to the Commission's downgrading of the problem as irrelevant or least pressing, this contribution starts from the assumption that the absence of a horizontal principle of digital exhaustion in EU copyright law and the inconsistent judicial approach to the issue have detrimental effects on the EU copyright system, alter its original balance with conflicting rights and freedoms, and frustrate the achievement of some of its economic, social and cultural goals. And while it agrees with the majoritarian view that reproducing in the digital environment the original balance struck by exhaustion for material copyright is a policy task that belongs to the EU legislator, it complements its plea for digital exhaustion with the proposal of two exegetic platforms that could help the CJEU reach similar *interim* results, flattening the divergence of outcomes of its literal, systematic and teleological interpretations.
- 10 After a brief introduction on the *Tom Kabinet* case, **Section B.** offers an overview of the international and EU sources involved in the debate, and summarizes the main scholarly positions on the matter, focusing on the key concepts and classificatory dilemmas. **Section C.** is articulated in three parts. **Part C.I.** illustrates the development of the doctrine of Community exhaustion in the CJEU's case law, emphasizing its supporting arguments, with particular reference to the notions of essential function and specific subject matter of copyright as metrics to balance copyright with fundamental freedoms. **Part C.II.** describes the fragmented patchwork of the CJEU's direct and indirect rulings on digital exhaustion, highlighting their mutual inconsistencies and unexplained departure from the principles advanced by the Court when constructing the notion of tangible exhaustion. **Part C.III.** shows the emersion of exhaustion-like principles in the CJEU's case law, commenting on the systematic short-

circuits generated by this approach as opposed to the rigidity shown in the rejection of digital exhaustion. **Section D.** gives an account of the main legal and economic reasons supporting this paper's plea for a horizontal principle of digital exhaustion in EU copyright law and proves the ultimate equivalence of traditional and digital markets as to the features justifying the need for the principle. **Section E.** is structured in two parts. **Part E.I.** provides a summary of the (few) references to the matter made by the EU legislator in its preparatory works and illustrates the legislative amendments which could allow the introduction of digital exhaustion without breaching the Union's international obligations. Waiting for a legislative intervention, **Part E.I.** proposes two alternative interpretative routes to help the CJEU bridge the legislative gap and reach similar *interim* results.

## B. The state of the art

### I. The Tom Kabinet case: waiting for Godot?

- 11 The *Tom Kabinet* saga has featured in the Dutch copyright scene since the launch of the website as an online intermediary for the consumer-to-consumer resale of e-books in 2014. Originally, users/sellers uploaded their copies on the platform and offered them for a self-determined value, declaring that they had deleted them from their devices. The platform validated the files to prevent multiple sales, watermarked them to make the buyers traceable, and provided a notice-and-take-down system to remove illicit content. Users/buyers could download the e-book from the seller's account, from which it was subsequently removed.
- 12 Tom Kabinet was first sued before the District Court of Amsterdam by the Dutch Publishers Association (Nederlands Uitgeversverbond – NUV) and the General Publishers Group (Groep Algemene Uitgevers – GAU), which tried – unsuccessfully – to obtain an injunction to stop its operations.<sup>25</sup> The Court rejected the request, arguing that the shutting down of the website would have been disproportionate compared to the uncertainty surrounding the applicability of the *UsedSoft* doctrine to e-books. The decision was upheld by the Amsterdam Court of Appeal<sup>26</sup> which, however, proposed a broader reading of Article 4(2)

Copyright Rules', <[http://ec.europa.eu/internal\\_market/consultations/2013/copyright-rules/docs/consultation-document\\_en.pdf](http://ec.europa.eu/internal_market/consultations/2013/copyright-rules/docs/consultation-document_en.pdf)> accessed 13 September 2018, 13-14, and 'Report on the responses to the Public Consultation on the Review of the EU Copyright Rules', <[http://ec.europa.eu/internal\\_market/consultations/2013/copyright-rules/docs/contributions/consultation-report\\_en.pdf](http://ec.europa.eu/internal_market/consultations/2013/copyright-rules/docs/contributions/consultation-report_en.pdf)>, accessed 13 September 2018, 20-22.

24 Commission, 'Communication a Digital Single Market Strategy for Europe' COM(2015) 192 final, 3 (mentioning as first pillar of the strategy a "better access for consumers and businesses to online goods and services across Europe", requiring "the rapid removal of key differences between the online and offline worlds to break down barriers to cross-border online activity").

25 Rechtbank Amsterdam, *Nederlands Uitgeversverbond and Groep Algemene Uitgevers v Tom Kabinet Internet BV et al*, C/13/567567/KG ZA 14-795 SP/MV (1 July 2014), NL:RBAMS:2014:4360.

26 Gerechtshof Amsterdam, *Nederlands Uitgeversverbond and Groep Algemene Uitgevers v Tom Kabinet*, Case 200.154.572/01 SKG (20 January 2015), NL:GHAMS:2015:66.

InfoSoc under §62 of the *UsedSoft* judgment, which suggests that the principle of exhaustion should be limited only if necessary, to protect the essential function and specific subject matter of copyright.<sup>27</sup>

- 13 As a response to the judicial attacks, Tom Kabinet repeatedly changed its business model, finally opting for the direct commercialization of used e-books acquired from selected retailers or donated by its members and sold only to the latter. In both cases, Tom Kabinet downloads the e-book from the retailer's website, watermarks it, and offers it for 2€, retaining 0.50€ as a donation for the author/publisher, and offering the possibility for buyers to sell back the e-book to Tom Kabinet for credits.<sup>28</sup>
- 14 The platform was sued again before the Hague District Court by NUV and GAU, which claimed a violation of the Dutch provisions implementing Articles 2 and 3 InfoSoc. The Court rejected Tom Kabinet's attempt to classify e-books as software products, which could have allowed the direct application of the *UsedSoft* ruling on digital exhaustion.<sup>29</sup> At the same time, it excluded that the platform's offer to sell constituted "communication" and that its members represented a "public", for they were not an indefinite and large number of individuals.<sup>30</sup> The Court also ruled out that Tom Kabinet could be obliged to verify whether the retailer deleted the e-book from its platform once it was sold,<sup>31</sup> while it left open the question of whether or not the reproduction necessary to transfer the file between buyer and seller was legitimate.<sup>32</sup> Only the retention of the copy on the Tom Kabinet's catalogue after its sale was judged in violation of the Dutch provision implementing Article 2 InfoSoc.<sup>33</sup>
- 15 The Court believed, however, that the case could not be solved without the intervention of the CJEU, since neither the InfoSoc Directive nor the CJEU's case law were clear with regard to the applicability of the *UsedSoft* doctrine to digital works. In its opinion, the purchase of an e-book for an indefinite period

against the payment of a sum corresponding to its value was functionally equivalent to a transfer of ownership,<sup>34</sup> while the inclusion of intangible copies under Article 4(2) InfoSoc was dictated by the principle of equal treatment, since tangible and intangible copies were also functionally equivalent, and so was their sale.<sup>35</sup> After giving time for parties to submit their observations on the proposed questions, the final referral for preliminary ruling was submitted in March 2018. The CJEU will now need to determine: (i) whether the right of distribution and its exhaustion under Article 4 InfoSoc also covers 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 also implies 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.

## II. The sources at stake

### 1. International sources

- 16 Due to the lack of supranational consensus, neither the Berne Convention nor the TRIPs Agreement take a stance over exhaustion, leaving the decision on its scope and regulation to contracting parties.<sup>36</sup> The debut of the principle in an international text, together with the general right of distribution, is marked by the two WIPO Internet Treaties (Article 6(2) WCT and Article 8(2) WPPT),<sup>37</sup> which similarly

<sup>27</sup> Ibid para 3.5.3-4.

<sup>28</sup> The terms of the website are available at <<https://www.tomkabinet.nl/en/conditions/>>, accessed 13 September 2018.

<sup>29</sup> Rechtbank Den Haag, *Tom Kabinet* (n 1), paras 5.6-5.10.

<sup>30</sup> Ibid paras 5.11-5.17.

<sup>31</sup> Ibid para 5.22. In this way the Court implicitly took a stance with regard to the burden of proof on the deletion of the file, which was left undetermined by *UsedSoft* and its progeny, among which Case C-166/15 *Aleksandrs Ranks and Jurijs Vasiļevičs v Finanšu un ekonomisko noziegumu izmeklēšanas prokuratūra and Microsoft Corp.*, EU:C:2016:762.

<sup>32</sup> Ibid paras 5.20-5.21. According to the Court, this depended on the possibility for the donating member to rely on the digital exhaustion of the distribution right, which under *UsedSoft* would have allowed any act of reproduction required for the transfer of the copy to the lawful acquirer.

<sup>33</sup> Ibid para 5.22.

<sup>34</sup> Ibid paras 5.26-5.27. Also, the Amsterdam Court of Appeal agreed with this view (paragraph 3.5.2), rejecting the plaintiffs' argument that the e-book prices are usually 50% lower than the price of paper books, and arguing that such lower amount depends on the fact that the production and distribution costs of a digital file are also lower than those of a printed version.

<sup>35</sup> Despite the plaintiffs' objection, which pointed to the differences between tangible and intangible copies, where the first are subject to wear-and-tear and are offered in different formats, while the second are in plain text and offer additional features (text-to-speech, searchable text etc.). Ibid para 5.35.

<sup>36</sup> TRIPs Agreement, Article 6. Not every signatory of the Agreement, in fact, regulated exhaustion, and there was no consensus as to its national, regional or international nature. For a comment see Mihaly Ficsor, *The Law of Copyright and the Internet. The 1996 WIPO Treaties, their Interpretation and Implementation* (OUP 2002), 153-155.

<sup>37</sup> Ibid 210-226. Some aspects of the right of distribution, however, were already regulated by the Berne Convention. Sam Ricketson and Jane C. Ginsburg, *International Copyrights and Neighboring Rights. Berne Convention and Beyond*, vol 1 (2<sup>nd</sup> ed, OUP 2006), 660 ff.

rule that “nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right [of distribution] applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author”. While legislators may thus regulate exhaustion without being subject to limitations such as, *inter alia*, the three-step-test,<sup>38</sup> they are obliged to set as minimum requirement for its operation the first lawful sale or transfer of ownership.<sup>39</sup> The scope of the principle is clarified by the Agreed Statement on Articles 6 and 7 WCT, which specifies that the words “copies” and “original and copies”, used in the context of the rights of distribution and rental, refer only “to fixed copies that can be put into circulation as tangible objects”.<sup>40</sup>

- 17 The relatively ambiguous language used by the Statement has divided scholars between those who believe that it excludes the applicability to digital copies,<sup>41</sup> and those who believe that it only requires the possibility to fix the creation on a material support, and not that the fixation has already happened.<sup>42</sup> The limitation did not cause substantial problems until the distinction between traditional and online exploitations of protected works remained clear: the right of distribution covered the circulation of original and copies in the material world, while the right of communication to the public and the making available right referred to cases where the work was received and not physically possessed by the user, either on demand (making available) or upon the rightholder’s initiative and determination (communication).<sup>43</sup> However, the dichotomy did not clearly solve the qualification of permanent transfers of digital files over the Internet, which were more functionally equivalent to traditional material sales (i.e. distributions) than to any form of intangible transmission of the work. In fact, using the nature of the work to distinguish between exclusive rights was the easiest, but not the most forward-looking solution to the classificatory

puzzle triggered by the digital revolution.

## 2. EU sources

- 18 The development of the principle at the EU level passed through the early intervention of the CJEU, which introduced the notion of Community exhaustion to preserve the free movement of goods against the unjustified partitioning of the internal market caused by the territorially-limited scope of national IP rights. In 1988 the EU Commission maintained that the clarity of the judicial precedents ruled out the need for a legislative introduction of the principle,<sup>44</sup> but emphasized its non-applicability to the newly proposed rental right, justifying the policy decision on the grounds of the CJEU’s exclusion of intangibles and services from the scope of exhaustion.<sup>45</sup> This approach, which distinguished between sale-style and service-style rights, was followed by the Software Directive I in 1991 and by the Rental Directive I in 1992,<sup>46</sup> which introduced the exhaustion of the right of distribution and crossed out its extension to rental rights,<sup>47</sup> with no further interpretative indication in their recitals, and no specification as to the necessarily tangible form of the copy subject to exhaustion. Similarly, Article 3(3) Software I excluded exhaustion in case of communication or making available of the work to the public.
- 19 A reference to the tangible-intangible dichotomy came, instead, from the Commission’s report on the implementation of the Software Directive I, which specified that exhaustion “only applies to the sale of copies i.e. goods, whereas supply through on-line services does not entail exhaustion”.<sup>48</sup> The same language was used in the Follow-up to the Green Paper on Copyright in the Information Society, which qualified any online exploitation of a work as service.<sup>49</sup> The 1996 Database Directive followed the

38 In the opinion of Mezei (n 7) para 18, in line with Silke von Lewinski, *International Copyright Law and Policy* (OUP 2008), para 17.65.

39 Jorg Reinbothe and Silke von Lewinski, *The WIPO Treaties on Copyright. A Commentary on the WCT, the WPPT, and the BTAP* (OUP 2015) 87.

40 See *Agreed Statements concerning the WIPO Copyright Treaty, adopted by the Diplomatic Conference of December 20, 1996, Concerning Articles 6 and 7*, <[http://www.wipo.int/treaties/en/text.jsp?file\\_id=295456](http://www.wipo.int/treaties/en/text.jsp?file_id=295456)>, accessed 13 September 2018.

41 See, e.g., the articulated arguments of JAL Sterling, *World Copyright Law* (4<sup>th</sup> ed, Sweet and Maxwell 2015) 574 ff.

42 More recently, see Friedrich Ruffler, ‘Is Trading in Used Software an Infringement of Copyright? The Perspective of European law’ [2007] 6 EIPR 380.

43 Broadly Mezei (n 7), paras 21-22, referring also to the definitions offered by Ficsor (n 36), 205-206 and 249-250.

44 Commission, ‘Green Paper on Copyright and the Challenge of Technology – Copyright Issues Requiring Immediate Action’, COM (1988) 172 final.

45 Ibid para 4.10.5, with reference to the *Coditel* cases (below n 109-110) and the audio-visual industry.

46 Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs, OJ L122/42 (Software Directive I); Council Directive 92/100/EEC of 19 November 1992 on rental right and lending right and on certain rights related to copyright in the field of intellectual property, OJ L346/61 (Rental Directive I).

47 Art 4(c) Software Directive I; Art 1(4) Rental Directive I.

48 Commission, Report on the implementation and effects of Directive 91/250/EEC on the legal protection of computer programs, COM(2000) 199 final, 17.

49 Commission, ‘Follow-up to the Green Paper on Copyright and Related Rights in the Information Society’, COM(96) 568 final, Ch 2, 19, para 4.

approach of the Software I and Rental I Directives,<sup>50</sup> but excluded exhaustion in case of re-utilization of materials extracted from the database lawfully transmitted and used online.<sup>51</sup>

- 20 Building on these precedents, when the EU legislator implemented the WCT through the InfoSoc Directive, not only did it introduce a general distribution right and its exhaustion (Article 4) using almost completely the WIPO Treaty language, but went beyond its international obligations, including the Agreed Statement's limitation to tangible copies (Recital 28)<sup>52</sup> and even making a step forward with the exclusion from the scope of the principle of services, and of any copy made from online services (Recital 29).<sup>53</sup> No further specifications were made as to the interplay and boundaries between Article 4 InfoSoc and the other exclusive rights harmonized by the act.
- 21 The InfoSoc is a directive of maximum harmonization, as specified also by the CJEU in *Laserdisken*<sup>54</sup> with regard to the territorial scope of exhaustion. Its entry into force has therefore excluded the direct judicial application of articles of the Treaty if it can be proven that the legislative act has already introduced measures "necessary to achieve the specific objective which would be furthered by reliance" on those provisions.<sup>55</sup> It follows that, for instance, Article 36 TFEU could not justify, on the example of the case law on Community exhaustion, the judicial extension of Article 4 InfoSoc beyond the borders set by Recitals 28 and 29, unless it is proven that the solution provided by the Directive is not enough to fulfill the Treaty goals underlying the provision.
- 22 The latter point is particularly relevant, since while the literal interpretation of the WCT and the InfoSoc Directive does not leave much doubt as to the boundaries of exhaustion, the teleological and

systematic reading of the same provisions may lead to different results. As proven by the *UsedSoft* ruling and by the recent referral in *Tom Kabinet*, in fact, the meaning attributed to concepts such as sale and license, good and service, distribution and making available rights through a teleological and contextual interpretation may change the answer to the question of admissibility of digital exhaustion in EU copyright law.

### III. Key concepts and classificatory dilemmas

#### 1. Sale vs license

- 23 The first relevant classificatory dilemma to determine the applicability of exhaustion on digital copies lies in the dichotomy of sale vs license, which is of key importance since every provision regulating exhaustion mentions as its requirement the first lawful "sale or other transfer of ownership" of the work. On this basis, licenses have been consistently used by rightholders to circumvent the application of the principle, since (i) they do not entail any transfer of ownership, but only a variously limited authorization to use the protected work for a definite or indefinite period, with a retention of title, and (ii) their object is usually qualified as a service and not as a good.<sup>56</sup>
- 24 The CJEU has intervened on the matter in *UsedSoft*, where it qualified the notion of "sale" as an autonomous concept of EU law, to be interpreted uniformly across the Union so as to avoid differences which may adversely impact on the functioning of the internal market.<sup>57</sup> "Sale" was defined as "an agreement by which a person, in return for payment, transfers to another person his right of ownership in an item of tangible or intangible property belonging

50 Directive 96/9/EC of the European Parliament and the Council of 11 March 1996 on the legal protection of databases OJ L77/20 (Database Directive), Article 5(c).

51 Ibid Recital 43.

52 "Copyright protection under this Directive includes the exclusive right to control distribution of the work incorporated in a tangible article".

53 "The question of exhaustion does not arise in the case of services and on-line services in particular".

54 Case C-479/04 *Laserdisken ApS v Kulturministeriet* [2006] ECR I-08089, para 24: "it follows from the clear wording of Article 4(2) of Directive 2001/29 (...) that the provision does not leave it open to the Member States to provide for a rule of exhaustion other than the Community-wide exhaustion rule", since this is "the only interpretation which is fully consistent with the purpose of Directive 2001/29 which (...) is to ensure the functioning of the internal market" (para 26).

55 For the first time explicitly in Case C-1/96 *The Queen v Minister of Agriculture, Fisheries and Food* [1998] ECR I-01281.

56 Mezei (n 7) para 98. On the risks posed by contractual circumvention of exhaustion in the digital environment, see Joseph P. Liu, 'Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership' [2001] 42 William and Mary LR 1245, 1339; Reese (n 11) 581, 614; Perzanowski-Schultz (n 8) 901-907; Brian W. Carver, 'Why License Agreements Do Not Control Copy Ownership: First Sales and Essential Copies' [2010] 25(4) Berkeley Tech LJ 1887. See also US Department of Commerce, Report to Congress: Study Examining 17 U.S.C. Sections 109 and 117 Pursuant to Section 104 of the Digital Millennium Copyright Act, March 21, 2001, <[http://www.copyright.gov/reports/studies/dmca/dmca\\_study.html](http://www.copyright.gov/reports/studies/dmca/dmca_study.html)>, accessed 13 September 2018.

57 *UsedSoft* (n 2) paras 40-41. The conclusion was supported by the fact that the Software Directive II does not refer to national law to define the notion, while its preamble sets as one of its purposes that of removing "differences between the laws of the Member States which have adverse effects on the functioning of the internal market".

to him”.<sup>58</sup> Then, to adapt the notion to the new technological settings and business practices, the Court opted for a functional interpretation of the commercialization scheme used by Oracle. On this basis, it considered the license and download as a single act due to their mutual indispensability for the transaction,<sup>59</sup> and argued that making the copy fully and permanently usable to a customer in return for the payment “of a fee designed to enable the copyright holder to obtain a remuneration corresponding to the economic value of the copy of the work”<sup>60</sup> was legally and economically equivalent to transferring the ownership of the copy itself, *id est* to a sale, regardless of the medium through which the copy was delivered to the buyer.<sup>61</sup> Sharing AG Bot’s conclusions, the CJEU believed that a narrow interpretation not encompassing “all forms of product marketing” having sale-like characteristics would have undermined the effectiveness of the principle of exhaustion, allowing rightholders to circumvent it through the mere labelling of the contract as “license”,<sup>62</sup> and to unduly control secondary markets and restrict fundamental freedoms beyond what was necessary for them to obtain an appropriate remuneration, and thus beyond what was needed to safeguard the specific subject matter of copyright.<sup>63</sup>

- 25 From a textual and systematic perspective, there is no obstacle preventing the application of the same reasoning to contracts having other types of digital works as an object. Like the Software Directive II, the InfoSoc Directive also mentions the notion of sale without referring to national laws, and its preamble identifies the removal of obstacles to the correct functioning of the internal market as one of the purposes of the harmonization.<sup>64</sup> Similarly, the recitals of both Directives indicate the goals of striking a (fair) balance between copyright and conflicting rights and freedoms, and between the protection of rightholders’ interests and the achievement of other Treaty objectives.<sup>65</sup> These elements suggest that the functional classification proposed in *UsedSoft* would need to also find application on licenses belonging to the realm of the InfoSoc Directive, in order to avoid the frustration of the balancing aims underlying Article 4 InfoSoc. Yet, despite the linearity of this systematic interpretation, some of

the few national cases ruling on the admissibility of a general principle of digital exhaustion have referred to the *lex specialis* nature of the Software Directive – clearly not relevant in this instance – to rule out such conclusion, and to reiterate the non-applicability of Article 4(2) InfoSoc on licenses whose content did not differ much from Oracle’s scheme.<sup>66</sup>

## 2. Distribution right vs communication to the public/making available right

- 26 Another key classificatory problem involves the distinction between acts of distribution (Article 4 InfoSoc) and acts of communication or making available to the public (Article 3 InfoSoc), since exhaustion is admitted only for the former and not for the latter.
- 27 Also in this respect the *UsedSoft* decision had its say, yet with a much more ambiguous two-step answer. Challenged by Oracle’s argument that the download of the software constituted an act of communication to the public, the CJEU opposed the nature of *lex specialis* of the Software Directive II to exclude the application of Article 3 InfoSoc to the transfer of dematerialized copies of computer programs, qualifying any transfer of the work as distribution (Article 4 Software II), regardless of its form.<sup>67</sup> Only subsequently did the CJEU clarify that according to Article 6(1) WCT, on which Articles 3 and 4 InfoSoc are based, the distinction between the two rights should be drawn on the basis of the type of transfer and use of the work,<sup>68</sup> where the alienation of ownership indicates a distribution and never a communication

58 Ibid para 42.

59 Ibid para 44.

60 Ibid para 45.

61 Ibid paras 45-47.

62 Ibid para 49.

63 Ibid para 63, with reference to Joined Cases C-403/08 *Football Association Premier League Ltd et al v QC Leisure et al* and C-429/08 *Karen Murphy v Media Protection Services Ltd* [2011] ECR I-09083 (FAPL), paras 105-106.

64 Recitals 1 and 3 InfoSoc Directive.

65 Recital 17 Software Directive II; Recital 31 InfoSoc Directive.

66 See, e.g., the overview provided by Maša Savič, ‘The Legality of Resale of Digital Content after *UsedSoft* in Subsequent German and CJEU Case Law’ [2015] 37 EIPR 414.

67 This assumption was in itself flawed, since the Software Directive II does not cover the making available right despite the fact that WCT obligations would have suggested the need to fill up the gap through the InfoSoc Directive – an option allowed by Article 1(2)(a) InfoSoc. See Emma Linklater, ‘*UsedSoft* and the Big Bang Theory: is the e-Exhaustion Meteor about to Strike?’ [2014] 5(1) JIPITEC 15; broadly on the point see Mezei (n 7), paras 121-123.

68 Which faced numerous critiques, such as Linklater (n 67); Spedicato (n 7); Thomas Vinje, Vanessa Marsland, Annett Gartner, ‘Software Licensing after *Oracle v UsedSoft*’ [2012] 4 *Computer Law Review International* 97; Martin Senftleben, ‘Die Fortschreibung des urheberrechtlichen Erschöpfungsgrundsatzes im digitalen Umfeld’ [2012] 40 *Neue Juristische Wochenschrift* 2924; Thomas Dreier, Matthias Leistner, ‘Urheberrecht im Internet: die Forschungsherausforderungen [2013] 9 *Gewerblicher Rechtsschutz und Urheberrecht* 887; EF Schulze, ‘Resale of digital content such as music, films or eBooks under European law’ [2014] 36 EIPR 9; Christopher Stothers, ‘When Is Copyright Exhausted by a Software License? *UsedSoft v Oracle*’, [2012] 11 EIPR 788.



to the public/making available.<sup>69</sup> Elaborating further on the point, scholars have characterized the making available right as featuring an on-demand transmission<sup>70</sup> with no permanent reproduction and/or retention of a copy, but only the possibility to access the work from a place and at a time decided by the user – an instance excluded in the case of an online sale of a digital copy, the transfer of which happens only upon conditions set by the seller.<sup>71</sup> According to this view, the key distinction between making available and distribution is grounded on the effects of the conveyance of the work: in case of distribution, the transfer of ownership of a copy, no matter if digital or material; in case of making available, the dematerialized transmission of a work triggered by the request of a user, who does not – or at least, is not supposed to – retain any copy of the work after the transmission is terminated. The validity of this reading seems to be confirmed by the emphasis put on the notion of “transmission” by Recitals 23 and 24 InfoSoc as an element characterizing the right protected under Article 3 InfoSoc, and by the saving clause of Article 8 WCT which, in listing the provisions of the Berne Convention left untouched by the “new” right, refers only to conducts entailing a transmission of the work, such as broadcasting, recitation and public performance of cinematographic works.<sup>72</sup>

- 28 This reading is not universally accepted, though. The tangible-only notion of original and copy suggested by the Agreed Statement on Article 4 WCT justifies for several commentators a distinction between distribution and communication to the public/making available rights based on the tangible or intangible nature of the support.<sup>73</sup> Any other

69 *UsedSoft* (n 2), para 52, as also noted by the Opinion of AG Bot, EU:C:2012:234, para 73. A similar distinction could be already found in Case C456/06 *Peek & Cloppenburg* [2008] ECR I2731, para 30.

70 Also defined “digital interactive transmission” in the definition of one of the main drafters of the Treaties, Ficsor (n 36) 203.

71 This is an observation explicitly made by Mezei (n 7), para 122, to support the CJEU’s conclusion in *UsedSoft* and answer to the criticism moved against such a reconstruction. Earlier and along the same lines see Eric Tjong Tjin Tai, ‘Exhaustion and online delivery of digital works’ [2003] 25 EIPR 208.

72 Article 8 WCT leaves unprejudiced Article 11(1)(ii) BC (public performance and communication to the public of the performance of a work), Article 11bis(1)(i) and (ii) BC (broadcasting and other wireless communications, public communication of broadcast by wire or rebroadcast, public communication of broadcast by loudspeaker or analogous instruments, and related compulsory licenses), Article 11ter(1)(ii) BC (right of public recitation and of communication to the public of a recitation), and Article 14(1)(ii) BC (public performance of cinematographic works).

73 And more recently by ALAI, *Opinion on Case C-263/18, NUV/GAU v Tom Kabinet*, Brussels, 12 September 2018, available at <<http://www.alai.org/en/.../180912-opinion-tom-kabinet-case-en.pdf>>, accessed 18 October 2018, 3-4.

interpretation – they argue – would go against the text of the Treaty, and unduly curtail the scope of Article 8 WCT.<sup>74</sup> Such a rigid approach, however, fails to attribute the necessary relevance to the different economic meanings of the acts of exploitation covered by Articles 4 and 8 WCT – a difference in value and impact which does not depend on the material or immaterial nature of the copy, but on the duration and extent of the availability of the work for the user.

- 29 Distinguishing the two rights on the basis of the type of transfer of the work has the advantage of ensuring a technologically neutral approach to the various transactions and helps adjust otherwise outdated provisions to the evolution of copyright markets. Since the drafting of the WCT, in fact, the shift towards digital content has introduced – as illustrated in more detail below – a real *tertium genus* within the tangles of the traditional good-service dichotomy, and a new grey zone between the traditional distribution and communication to the public since 1996; that is the online transfer of digital works as products, where the buyer acquires the work on its device, instead of merely accessing it from a place and at a time individually chosen by her. A distinction grounded on the type of transfer and not on the nature of the support, which limits the making available right to on-demand transmissions that do not entail any transfer of ownership over the hard/digital copy, is capable of embedding these nuances, while guaranteeing an equal treatment to transactions that are formally different but functionally similar.

- 30 In a diachronic perspective, this teleological interpretation is in line with the EU legislator’s original decision to classify the making available right as a form of communication to the public and not, as for example in the US,<sup>75</sup> under the right of distribution – a decision directed to clearly emphasize their ontological and material distinction.<sup>76</sup> Both options, in fact, are fully compatible with the “umbrella solution” proposed by Article 8 WCT, which leaves contracting parties free to determine under which exclusive right(s) or combination thereof such acts of dematerialized

74 *Ibid.*

75 Information Infrastructure Task Force, ‘Intellectual Property and the National Information Infrastructure: The Report of the Working Group on Intellectual Property Rights’, September 1995, 212-214; see the comment of Maria A Pallante, ‘The Next Great Copyright Act’ [2013] 38(3) *Columbia J of L & A* 324. Federal courts are split on the admissibility of the making available right under the US Copyright Act. Among the most recent landmark decisions, see *contra Sony BMG Music Entertainment et al v Joel Tenenbaum*, 663 F.3d 487 (2011), while in favor *Capitol Records Inc et al. v Jammie Thomas-Rasset*, 692 F.3d 899 (2012).

76 But see, *contra*, Linklater (n 67) para 22.

transmission should be classified, and whether or not this requires an amendment of existing national laws.<sup>77</sup> By the same token, an update of the criteria of distinction between the rights protected under Articles 3 and 4 InfoSoc could not be held incompatible with the WCT provision,<sup>78</sup> unless this would cause some form of exploitation to remain uncovered – a circumstance that is clearly excluded. The functional distinction is also more fit to explain, in a systematic perspective, why Recital 29 InfoSoc “limits” its exclusion from exhaustion to online services and the copies made by their users, and why the Commission underlined the same distinction in the context of the implementation of the 1991 Software Directive I:<sup>79</sup> the on-demand transmission of the work without permanent transfer of the copy represents, indeed, the provision of a service, and not the transfer of a product/good, as in the case of distribution. However, the two-step structure of the answer offered by the Court, grounded on the *lex specialis* nature of the Software Directive II and not on systematic observations, has wrongly overshadowed its role of general consideration and its applicability beyond the realm of computer programs – a defect which can be tackled only, as better illustrated below (§ 5.2), through a teleological interpretation of existing sources.

### 3. Good vs service

31 The controversial good-service dichotomy had already emerged in early directives and preparatory works,<sup>80</sup> but became relevant only after the EU legislator decided to supplement the WCT definition with the exclusion of services from the scope of exhaustion.

32 The two notions, central both in primary and secondary EU law, are not defined in the Treaties. Secondary sources provide only scattered indications, while the case law is fragmented, strongly fact-centered, and thus of little help in providing general classificatory criteria. The CJEU has consistently defined as goods (also called “products” or “objects”) entities characterized by tangibility<sup>81</sup>

and tradability,<sup>82</sup> that is the capability of being the object of commercial transactions, qualifying services as a residual category.<sup>83</sup> Interestingly, however, in some cases the Court has excluded that the commercial transaction should entail a transfer of ownership, creating serious compatibility problems with those decisions where licenses or leasing of goods have been qualified as a service.<sup>84</sup> With a reversed reasoning, and thus adding further layers of complexity to the definitory framework, the CJEU has ruled that tangible objects may be qualified as services when they are made available as a step in the performance of a service contract.<sup>85</sup> The sector where this overlap of classificatory criteria has triggered more confusion is, expectedly, that of intangible products, where the CJEU has based the distinction between goods and services on the tangible or intangible nature of the support and of the distribution means, and not on the type of contract involved.<sup>86</sup>

33 Some secondary sources follow a similar approach, with a particular emphasis on tangibility.<sup>87</sup> An example comes from Recital 33 Database, which excludes exhaustion for on-line databases since “unlike CD-ROM or CD-I, where the intellectual property is incorporated in a material medium, namely an item of goods, every on-line service is in fact an act which will have to be subject to authorization where the copyright so provides”. Bringing this statement a step forward, Recital 38 of the E-Commerce Directive includes in the category of services also the online sale of goods,<sup>88</sup> while the VAT Regulation prefers to limit the definition of supply of goods to “the transfer of the right to dispose of tangible property as owner”, using together the requirements of tangibility and of the transfer of ownership.<sup>89</sup> On this basis, the CJEU has

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the Boundary between Goods and Services in the World Trade Organization and the European Union’ [2005] 12(1) Columbia Journal of European Law 1.

77 On the “umbrella solution” see, *ex multis*, Ficsor (n 36) 145 ff; Ricketson-Ginsburg (n 37) 741-748; Reinbothe-von Lewinski (n 39) 124 ff.

78 As the ALAI Comment (n 73) does in explicit terms (at 4).

79 Explicitly in this sense, Answer by Commissioner Monti to Oral Question H-0436/95 by Arthur Newens, MEP (11.7.1995), Debates of the EP, No. 466, 175.

80 As in Commission, ‘Green Paper on Copyright and Related Rights in the Information Society’ COM(95) 382 final, 47, and in Report on the implementation of the Software Directive (n 48) 17.

81 See the overview provided by Fiona Smith and Lorna Woods, ‘A Distinction without a Difference: Exploring

82 As in Case C-7/68 *Commission v Italy* [1968] ECR I-0423, where goods are defined as products having a monetary value and being potentially object of a commercial transaction. Later, in Case C-2/90 *Commission v Belgium* [1992] ECR I-04431, the Court carved out the monetary value requirement.

83 Particularly in Case C-155/73 *Sacchi* [1974] ECR I-0409.

84 Eg Case C-451/99 *Cura Anlagen GmbH v ASL* [2002] ECR I-3194, with reference to the long-lease of cars.

85 *FAPL* (n 63), paras 77-83, commented by Thomas Dreier, ‘Online and Its Effect on the ‘Goods Versus ‘Services’ Distinction’ [2013] 44(2) IIC 137.

86 After *Sacchi* (n 78), Case C-52/79 *Procureur du Roi v Debauve* [1980] ECR I-0833.

87 The emphasis on tangibility is a point strongly made by Karapapa (n 12) 311-313.

88 Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market, [2000] OJ L178/1.

89 Council Directive 2006/112/EC of 28 November 2006 on the

qualified the online supply of e-books as a service,<sup>90</sup> excluding the application of the reduced rate provided for printed books. However, after harsh scholarly critiques, which judged the distinction inadequate to properly classify digital products and their commercialization,<sup>91</sup> and AG Opinions pointing to its dubious consistency with the principles of tax neutrality and equality,<sup>92</sup> the Parliament has approved with a vast majority the Commission's proposal of allowing Member States to provide the same reduced VAT rate for printed and electronic books,<sup>93</sup> which is currently being discussed before the Council.<sup>94</sup>

- 34 To overcome the problematic limitation to “goods” made by several consumer law directives, instead, the Consumer Rights Directive (CRD)<sup>95</sup> has opted for a hybrid, new classification, qualifying as digital content “data which are produced and supplied in digital form (...) irrespective of whether they are accessed through downloading or streaming, from a tangible medium or through any other means”,<sup>96</sup> focusing only on the nature of the support and not on the means of commercialization. Along the same lines, the CRD defines a digital content supplied on a tangible medium as a good and introduces a *tertium genus* approach to the contracts for digital content not distributed on material supports, stating that they “should be classified (...) neither as sales contracts nor as service contracts”. The Directive, however, is clear in limiting the validity of this classification to its scope – a specification that reinforces the impression of a patchwork of subject-specific definitions.

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common system of value added tax [2006] OJ L347/1, Article 14(1).

- 90 Case C-479/13 *Commission v France* [2015] EU:C:2015:141, and Case C-502/13 *Commission v Luxembourg* [2015] EU:C:2015:143.
- 91 See especially Yves Gaubiac, ‘The exhaustion of rights in the analogue and digital environment’ [2002] 4 Copyright Bulletin 9.
- 92 See, eg, the Opinion of AG Szpunar in Case C-174/15 *Vereniging Openbare Bibliotheken v Stichting Leenrecht* (VOB) [2016] EU:C:2016:856, para 61.
- 93 Commission, Communication Towards a single EU VAT area – Time to decide’, COM(2016) 148 final, 12.
- 94 Commission, ‘Proposal for a Council Directive amending Directive 2006/112/EC, as regards rates of value added tax applied to books, newspapers and periodicals’. COM/2016/0758 final.
- 95 Directive 2011/83/EU of the European Parliament and of the Council of 25 October 2011 on consumer rights, OJ L304/64 (Consumer Rights Directive).
- 96 Ibid Recital 19: “If digital content is supplied on a tangible medium, such as a CD or a DVD, it should be considered as goods within the meaning of this Directive. Similarly to contracts for the supply of water, gas or electricity, where they are not put up for sale in a limited volume or set quantity, or of district heating, contracts for digital content which is not supplied on a tangible medium should be classified, for the purpose of this Directive, neither as sales contracts nor as service contracts.”

- 35 Against this fragmented background, the introduction of the good-service dichotomy to define the scope of exhaustion (Recital 29 InfoSoc) could only trigger further ambiguities. As noted by AG Bot in his Opinion in *UsedSoft*, following Recital 18 E-Commerce would, *inter alia*, mean to exclude the principle in the case of an online purchase of a CD-ROM incorporating the copy of a software, while “the distinction as to whether the sale takes place remotely or otherwise is irrelevant for the purposes of applying that rule”.<sup>97</sup> In fact, the reference to services to define the scope of Article 4(2) InfoSoc clashes with the different purposes of the principle of exhaustion and the good-service dichotomy,<sup>98</sup> where what matters is the transfer of ownership over the copy, and not its tangible nature or material delivery.<sup>99</sup> To solve the standstill, some scholars have advocated for the judicial formulation of new *ad hoc* “meta-criteria” to qualify as goods or services works offered online,<sup>100</sup> while other voices believe that Recital 29 InfoSoc is outdated compared to the evolution of copyright markets, but exclude that the judiciary alone can tackle the issue, and deem a legislative amendment necessary.<sup>101</sup>

- 36 Nothing prevents, however, an immediate reordering that passes through a contextual and teleological interpretation of the good-service dichotomy, based on the grounds of a distinction between communication to the public and distribution rights, and on the consideration of the objectives of exhaustion.

- 37 As to the first point, the different acts covered by the two rights suggest linking goods to Article 4 Infosoc and services to Article 3 InfoSoc, pairing the two dichotomies in a more consistent contextual framework. As to the second point, the reference goes to the goals of exhaustion as defined in *UsedSoft*, where the Court stated that the principle has the fundamental role of avoiding the partitioning of markets, while limiting the restrictions to the right of distribution to “what is necessary to safeguard the specific subject-matter of the intellectual property concerned”.<sup>102</sup> On this basis, it allowed digital

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97 Opinion of AG Bot in *UsedSoft* (n 2) para 76.

98 See, eg, Andreas Wiebe, ‘The Principle of Exhaustion in European Copyright Law and the Distinction between Digital Goods and Digital Services [2009] GRUR International 115.

99 In this sense Spedicato (n 7) 48-49. For the US, similarly, Tai (n 71) 209, referring to the text of two official reports (US Department of Commerce, Report to Congress (n 56), and US Copyright Office, A Report of the Register of Copyrights Pursuant to §104 of the DMCA, 18 August 2001), which admitted digital exhaustion in case of lawfully downloaded copies.

100 Dreier (n 85) 138.

101 Mezei (n 7) para 195.

102 *UsedSoft* (n 2) para 62, referring to Case C-200/96 *Metronome*

exhaustion, arguing that a limitation of the doctrine to tangible copies would be unjustified, since it would allow rightholders to control the resale of copies sold online and demand an additional remuneration after each transaction, even when the first sale has already granted them an appropriate return – something going “beyond what is necessary to safeguard the specific subject-matter” of copyright.<sup>103</sup> This teleological approach, recalling principles used in the early case law on Community exhaustion, aimed at (i) overcoming the distortions that could derive from treating similar transactions differently on the basis of the nature of the support and the delivery method, and (ii) avoiding that the adoption of criteria taken from outside copyright law, and thus inspired by other rationales and goals, undermine the role and effects of the principle in the copyright market. With a commercialization of copyright-protected works moving almost completely online and on digital formats, in fact, the use of tangibility as a watershed to distinguish between goods and services would ultimately expunge exhaustion from the system.<sup>104</sup> These arguments may be generalized, possibly with even more ground, to cover all the works protected by copyright.

- 38 Against this background, it should not be impossible to overcome the classificatory obstacles commonly opposed to digital exhaustion, flanking the literal interpretation of secondary sources with a broader contextual and teleological analysis. The inevitable starting point of this operation is the path that led to the creation of Community exhaustion in the 1970s, drawing rationales and roles on the principle.

## C. From material to digital exhaustion in the CJEU’s case law

### I. The doctrine of Community exhaustion: fundamental freedoms and the essential function and specific subject matter of copyright

- 39 Exhaustion was one of the first Trojan horses through which the CJEU launched its intervention on national copyright laws,<sup>105</sup> circumventing the obstacles set by Article 295 EC (now Article 345 TFEU), which excludes the interference of the Treaty with the national systems of property ownership,<sup>106</sup> and by Article 36 EC (now Article 36 TFEU), which admits restrictions to the freedom of circulation of goods when necessary to protect industrial and commercial property.<sup>107</sup> To this end, the Court ruled that the derogation introduced by Article 36 EC referred to the existence of the rights, *id est* their creation by national legislators, but not to their exercise, which could in no case violate the provisions of the Treaty.<sup>108</sup> This distinction, also known as the existence-exercise dichotomy, made its debut in the late 1970s with a decision – *Deutsche Grammophon* – that is also remembered as the origin of the doctrine of Community exhaustion.
- 40 In *Deutsche Grammophon*, the rightholder used a licensing scheme to segment the internal market through a net of exclusive national distributors of sound recordings. The scheme could work thanks to the territorial nature of copyright, and to the fact that most of the national copyright statutes limited the operation of exhaustion to first sales that took

105 On the development of the doctrine see Jens Schovsbo, ‘The Exhaustion of Rights and Common Principles of European Intellectual Property Law’ in Ansgar Ohly (ed), *Common Principles of European Intellectual Property Law* (Mohr Siebeck 2012) 174 ff.

106 But see, contra, Bram Akkermans and Eveline Ramaekers, ‘Article 345 TFEU (ex. 295 EC), Its Meanings and Interpretations’ [2010] 16(3) *European Law Journal* 292.

107 For a general comment on the provision, see David T. Keeling, *Intellectual Property Rights in EU Law. Vol I - Free Movement and Competition Law* (OUP 2004) 54 ff; Peter J. Oliver, *Free Movements of Goods in the European Community* (Hart 2004) 315 ff.

108 See, e.g., Fennelly (n 9); Benedetta Ubertaini, ‘The Principle of Free Movement of Goods: Community Exhaustion and Parallel Imports’ in Paul Torremans and Irini Stamatoudi (eds), *EU Copyright Law - A Commentary* (Edward Elgar 2014) 38-51; Alain Strowel and Hee-Eun Kim, ‘The Balancing Impact of General EU law on European Intellectual Property Jurisprudence’ in Justine Pila and Ansgar Ohly, *The Europeanization of Intellectual Property Law: Towards a European Legal Methodology* (OUP 2012) 121 ff.

*Musik GmbH v. Music Point Hokamp GmbH* [1998] ECR I-01978, Case C61/97 *FDV* [1998] ECR I5171, para 13 and *FAPL* (n 63) para 106.

103 *UsedSoft* (n 2) para 63; *FAPL* (n 63) paras 105-106.

104 In this sense explicitly Dreier (n 85) 139, defining the distinction between goods and services as no longer technology-neutral.

place within their national boundaries. Arguing that Article 36 EC admitted derogations only if justified “for the purpose of safeguarding rights which constitute the specific subject-matter” of industrial and commercial property,<sup>109</sup> the Court stated that allowing rightholders to prevent the marketing of a product in a Member State simply because the first act of distribution did not take place in its territory was “repugnant to the essential purpose of the Treaty, which is to unite national markets into a single market”.<sup>110</sup> Since the balance between fundamental freedoms and copyright enforcement was too heavily tilted towards the latter, and beyond what was necessary to protect the subject matter of copyright, the principle of national exhaustion was declared not applicable, and its geographical scope extended to become Community-wide.<sup>111</sup> Similar arguments were used in *Musik-Vertrieb Membran*<sup>112</sup> against the practice of GEMA (the then-monopolistic German collecting society) to charge a levy on imported sound recordings originally put in circulation by rightholders, which was deemed to result in an unjustified partitioning of the internal market that frustrated the competition between national systems,<sup>113</sup> made again possible by national exhaustion.<sup>114</sup>

41 In both cases, Article 36 EC and the notion of specific subject matter of copyright acted as a balancing tool between copyright and conflicting rights, freedoms, and policy goals. Later on, the same principles were also followed to draw the boundaries of Community exhaustion. In the early 1980s, in *Coditel I*<sup>115</sup> and *II*,<sup>116</sup> the Court excluded the application of the principle in case of a provision of services. In both instances a Belgian company, exclusive assignee for Belgium of the performing right on the movie *Le Boucher*, sued Coditel for the rebroadcasting of the movie in Belgium, taken from the signal of a German television channel, which was the exclusive assignee of the broadcasting right for Germany. Following its precedents, the CJEU stated that the freedom to provide services could have prevailed only if copyright could still perform its essential function, which is that of ensuring an appropriate remuneration for rightholders.<sup>117</sup> This

was not the case for cinematographic works, which differed from other literary and artistic works, as their main and most profitable form of exploitation laid in their repeated performances, and not in the sale of tangible copies.<sup>118</sup> In this sense, the power to control (and profit from) each performance or broadcasting was judged as “part of the essential function of copyright” in such type of works,<sup>119</sup> the protection of which required to exclude the application of exhaustion, and justified under Article 36 EC a compression of fundamental freedoms unless the rightholder’s conduct constituted “a means of arbitrary discrimination or a disguised restriction on trade between Member States”.<sup>120</sup> However, rather than radically expunging the principle, the CJEU specified that it was for national courts to establish whether the exercise of copyright created artificial and unjustifiable barriers to the industry, charged fees that exceeded a fair return on investment, or excessively restricted or distorted competition.<sup>121</sup> In these cases, in fact, the rightholder’s conduct would have departed from the functions of copyright, justifying the disapplication of Article 36 EC and – one would conclude – the return in force of exhaustion also in the case of services.<sup>122</sup>

42 The Court reached similar conclusions in the field of rental right before its harmonization in 1992.<sup>123</sup> In *Warner Bros v Christiansen*<sup>124</sup> the plaintiff wanted to block the lawful import and subsequent rental in Denmark, where the rental right was included in the copyright bundle, of a videocassette legally bought in the United Kingdom, where the rental right was not regulated. The question was whether the doctrine of Community exhaustion, which terminated the distribution right after the first sale in a country not recognizing an independent rental right, could have had the effect of preventing the rightholder to exercise the latter in another Member State that recognized it. The CJEU answered to the negative, arguing that the legislative recognition of the rental right was justified, under Article 36 EC, by the need to make sure that copyright performs its essential function, which was to guarantee to rightholders “a remuneration which reflects the number of occasions on which the video-cassettes

109 *Deutsche Grammophon* (n 9) para 11.

110 *Ibid* paras 12-13.

111 *Ibid*.

112 Joined Cases C-55/80 and C-57/80 *Musik-Vertrieb Membran and K-tel International v GEMA* [1981] ECR I-0147.

113 *Ibid* para 18.

114 *Ibid* para 26.

115 Case C-62/79 *SA Compagnie générale pour la diffusion de la télévision, Coditel, and others v Ciné Vog Films and others* (Coditel I) [1980] ECR I-0881.

116 Case C-262/81 *Coditel v CinéVog Films II* (Coditel II) [1982] ECR I-3381.

117 *Coditel I* (n 115) para 11.

118 *Ibid* para 12.

119 *Ibid* para 14.

120 Unless the rightholder’s conduct “constitutes a means of arbitrary discrimination or a disguised restriction on trade between Member States”. *Ibid* para 15.

121 *Coditel II* (n 116) para 19.

122 For a broader comment on this strain of cases, see Gaubiac (n 91); Frank Gotzen, ‘Distribution and exhaustion in the EC’ [1990] 8 EIPR 301; Keeling (n 107) 81 ff; Fennelly (n 9) 32 ff.; David Gladwell, ‘The Exhaustion of Intellectual Property Rights’ [1986] 12 EIPR 368.

123 With the Rental Directive I (n 41).

124 Case C-158/86 *Warner Brothers Inc. and Metronome Video ApS v Christiansen* [1988] ECR I-02629, paras 14-15.

are actually hired out and which secures for them a satisfactory share of the rental market”.<sup>125</sup> Excluding its exhaustion did not contradict the principle as applied to the right of distribution, “the purpose and scope of which are different”,<sup>126</sup> since a harmonized rental right is necessary to foster innovation, avoid distortion in competition and obstacles to the functioning of the internal market,<sup>127</sup> and has a key role in guaranteeing “that authors and performers can receive appropriate income and amortise the especially high and risky investments required particularly for the production of phonograms and films”.<sup>128</sup> As in *Coditel I* and *II*, the implicit underlying assumptions were, one the one hand, that service-like rights cannot be subject to exhaustion because their exploitation require multiple acts to grant an appropriate remuneration, and a more pervasive control to prevent easy infringements; on the other hand, that exhaustion makes economic sense and is needed for the copyright balance predominantly in sale-like settings.<sup>129</sup>

- 43 Out of the different nuances and arguments advanced by the CJEU in the construction of Community exhaustion, subsequent legislative texts and judicial interpretations inherited only the strict material-only construction and the exclusion of services from the scope of the principle. Particularly the second point represented a problematic and probably not needed addition compared to the WCT, which made EU secondary sources even more rigid *vis-à-vis* technological changes and the evolution of digital business models.<sup>130</sup> Dismissing the teleological criteria of the specific subject-matter and essential function of copyright as balancing tools to adapt the contours of the principle has inevitably triggered its stiffening, and contributed to the loss of systemic consistency shown by the CJEU’s decisions that have since then ruled directly or indirectly upon digital exhaustion.

## II. Direct and indirect rulings on digital exhaustion: a fragmented picture

### 1. *UsedSoft* (C-128/11)

- 44 To date, the CJEU has decided on the issue of digital exhaustion only in *UsedSoft*, whose scope is limited to software products. *UsedSoft* has been one of the most contested copyright decisions in the history of the Court, featuring several layers of arguments and the use of a wide array of interpretative methods. The ruling introduced a functional definition of the notion of sale, the distinction between communication to the public and distribution, the consideration of the goals of exhaustion to overcome the good-service dichotomy and, not least, the functional/economic equivalence of tangible and intangible copies, which the principle of equal treatment requires to be treated similarly also *vis-à-vis* the principle of exhaustion.<sup>131</sup> Particularly the last point allowed overcoming the limitation of the notion of “copy”, “original” and “object” to tangible copies of the work, enshrined in the WCT, its Agreed Statements and the InfoSoc Directive with regard to the distribution right. The strong teleological considerations, however, were and are weakened by the apologetic recourse to the *lex specialis* nature of the Software Directive II, which was used to justify the disregard of the doctrine according to which concepts used in EU secondary law must have in principle the same meaning.<sup>132</sup>
- 45 Despite the critiques, the omissions and some weak passages, *UsedSoft* had the merit of preserving legal certainty while ensuring that functions and aims of the discipline could still be realized even in changed circumstances. The reference to the specific subject matter of copyright as metrics to set the boundaries of exhaustion channeled in the purpose/function of copyright as a variable determining its interplay with conflicting rights, freedoms and policy goals. This linked past and current CJEU’s case law, paving the way for a coherent evolution of the system. Unfortunately, subsequent decisions have completely lost this path.

125 Ibid para 15.

126 Ibid para 20.

127 Ibid para 22.

128 Ibid.

129 See, similarly, *Mezei* (n 7) paras 26-28.

130 Ibid para 43.

131 *UsedSoft* (n 2) para 61.

132 Ibid para 60. The Court referred to the different language used in the two texts, where Article 4(2) Software II refers to the sale of a copy of the program, making no distinction as to its tangible or intangible form (para 55), and Article 1(2) Software II extends the scope of the Directive “to the expression in any form of a computer program”, with a clear assimilation of tangible and intangible copies (paras 57-58).

46 After *UsedSoft*, the Court has never had the opportunity to intervene directly on the issue of digital exhaustion under the InfoSoc Directive, mostly due to the scarce engagement of national courts, and their resolute denial of the principle in the few decisions on the matter.<sup>133</sup> Side references appear in those sporadic CJEU's rulings which attempt to limit the negative effects of the rigid approach to the tangible-intangible dichotomy in other areas of copyright law. These fragmented responses depict an inconsistent framework, further complicated by the reactions to *UsedSoft* which, albeit limited by the *lex specialis* argument, has nevertheless challenged the validity of the distinction between tangible and intangible copies as a criterion defining the borders of exhaustion, and between InfoSoc exclusive rights.

## 2. Art & Allposters (C-419/13)

47 The first intervention, *Art & Allposters*,<sup>134</sup> is commonly read as the final “nay” against digital exhaustion,<sup>135</sup> and this despite the case involves tangible supports, for it discusses the legitimacy of the transfer of images of protected works from posters, lawfully acquired and on which the distribution right was thus exhausted, to canvas, commercialized without the rightholder's authorization. The matter could have been more properly analyzed through the lens of the adaptation right, not harmonized by the InfoSoc Directive. Yet, the Court decided to qualify the commercialization of posters and canvas under the right of distribution, since both contained an image of the protected work.<sup>136</sup> The question was, therefore, whether or not the subsequent alteration of the medium excluded the original operation of exhaustion.

48 At stake there was the interpretation of the meaning of “that object” as an entity, the sale of which triggers the effects of Article 4(2) InfoSoc. The CJEU offered a textual and contextual reading of the notion, concluding that Recital 28 InfoSoc, Article 6 WCT and the Agreed Statements to the WCT<sup>137</sup> concurrently showed the intention to “give authors control over the initial marketing (...) of each *tangible object* incorporating their intellectual creation”.<sup>138</sup> The reference to tangibility was more of a *dictum* than an integral part of the main argumentation, and digital

exhaustion was not mentioned a single time in the text of the decision. Yet, several commentators seem to agree on the fact that the Court has already taken a definite stance on the matter,<sup>139</sup> which eventually will be followed in the *Tom Kabinet* case.

49 In *Allposters* the CJEU ruled that the alteration of the medium created a new object, constituting a new unlawful reproduction under Article 2 InfoSoc, even if the first medium ceased to exist.<sup>140</sup> The conclusion was mostly based on a strict reading of EU and international texts, only complemented by the teleological consideration of the InfoSoc's goal of establishing a high level of protection of rightholders, “allowing them to obtain an appropriate reward for the use of their work”,<sup>141</sup> where appropriate means “reasonable in relation to the economic value of the (...) work”,<sup>142</sup> Hinting at the criteria used in the past to draw the borders of exhaustion, the Court argued that applying the principle on new supports, which open new potential markets, would deprive rightholders of the possibility of requiring an appropriate reward from the new forms of commercial exploitation of their works.<sup>143</sup> The axiological reference is, however, only secondary, not elaborated, and tilted towards the “high level of protection” for copyright owners.<sup>144</sup> These features confirm its role of a mere supporting argument, rather than of an interpretative tool guiding the adaptation of the principle when the changed economic and technological variables endanger its effectiveness.

## 3. Ranks (C-166/15)

50 There is no trace of teleological reasoning, instead, in *Ranks*,<sup>145</sup> which circumscribes the scope and effects of *UsedSoft* by excluding the applicability of exhaustion to backup and other non-original copies, even if the original support was destroyed or damaged. The Opinion of AG Saugmandsgaard Øe tried to bridge the InfoSoc and Software I and II Directives by offering a common reading of the notion of “that copy”,<sup>146</sup> overcoming the clustered separation between *lex generalis* and *leges speciales*. Similarly, the Opinion linked *UsedSoft* and *Allposters* in a unitary framework, explaining that while traditional tangible copies do not require adaptive

133 As maintained and evidenced by Galič (Savič) (n 66) 415-416.

134 Case C-419/13 *Art & Allposters International BV v Stichting Pictoright* [2015] EU:C:2015:27.

135 See, eg, Rosati (n 22), and Maša Galič (Savič), ‘The CJEU Allposters Case: Beginning of the End of Digital Exhaustion?’, [2015] 37 EIPR 389.

136 *Allposters* (n 134) paras 26-27.

137 *Ibid* paras 34-35 and 38-39.

138 *Ibid* para 3.7 (emphasis added).

139 See particularly Rosati (n 22) 680.

140 *Allposters* (n 134), para 43.

141 *Ibid* para 47.

142 *Ibid* para 48, as also in *FAPL* (n 63) paras 107-109.

143 *Ibid*.

144 *Ibid* para 47.

145 *Ranks* (n 31).

146 Opinion of AG Saugmandsgaard Øe in *Ranks* (n 31) paras 40-42.

interpretations of the legislative text in order to preserve the effectiveness of exhaustion, intangible copies demand a more thorough, teleologically-oriented approach to existing norms.<sup>147</sup>

- 51 Unfortunately, the final judgment opted for a much more concise argumentation, putting little effort in contextualizing the decision. The CJEU confirmed the main tenets of *UsedSoft*, stating that the lawful acquirer of a tangible copy of a software, who no longer possesses the original medium because it got destroyed, damaged or lost, cannot be deprived of the possibility to resell that copy and be discriminated against the lawful acquirer of an intangible copy of the program, since this would render exhaustion ineffective. However, the Court added that the effects of the principle cannot broaden the scope of the backup exception (Article 5(2) Software I) and allow its second-hand commercialization in case of unavailability of the original, since the provision authorizes only reproductions “made and used to meet the sole needs of the person having the right to use that program”.<sup>148</sup> This is contrast to Article 5(1), which authorizes the reproduction by any lawful acquirer “in accordance with its intended purpose”.<sup>149</sup>

#### 4. VOB (C-174/15)

- 52 Against this background, when in *VOB*<sup>150</sup> the CJEU was asked whether the public lending exception (Article 6 Rental II<sup>151</sup>) could also be applied to e-books, one could have expected that the reference to “originals” and “copies” made by Article 3 Rental II to define the scope of the rental and lending rights would have led the Court to answer negatively. Instead, a marked teleological approach and the willingness to maintain the effectiveness of the exception for cultural promotion<sup>152</sup> triggered a completely different interpretation. Arguing that the Agreed Statement to the WCT limits the tangible-only reading of “original” and “copies” to the sole rights of distribution and rental, and that the WCT does not regulate lending, the CJEU split rental and lending rights – leveraging in particular on the use of the plural “rights”<sup>153</sup> – assumed that the EU legislator did not necessarily want to regulate the two entitlements

similarly, and used teleological arguments to apply the public lending exception to e-books. With the same niche approach, and in order to rebut the objection that the explanatory memorandum on the proposal of the Rental Directive I of 1992 clearly excluded from its scope the making available of films via electronic transmission,<sup>154</sup> the Court went as far as to distinguish e-books from movies commercialized online. Needless to say, the Rental Directive II was also defined *lex specialis* to circumscribe the effects of the decision,<sup>155</sup> and a *dictum* specified the need to read in any case the concept of “object” and “copies” as referred to tangible items, in light of the Agreed Statement.<sup>156</sup>

- 53 Two elements are of key relevance, though. First, the CJEU underlined that its conclusions were motivated by the objectives of the Directive and by its Recital 4, which states that copyright must adapt to new economic developments such as new forms of exploitation.<sup>157</sup> The statement was translated into an explicit request to privilege the teleological method of interpretation which – AG Szpunar noted – is present also in the InfoSoc Directive (Recitals 2, 5 and 8).<sup>158</sup> Second, the Court ruled that EU law does not preclude a Member State from making the application of the public lending exception subject to the condition that the distribution right on the copy has been exhausted under Article 4(2) InfoSoc.<sup>159</sup> The conclusion was justified by the fact that the requirement is more protective towards authors, since the exception would otherwise allow the public lending of materials not necessarily put in circulation with the rightholder’s consent.<sup>160</sup> Most importantly, however, the CJEU extended the argument to the lending of digital copies, but without spending a word on the matter of digital exhaustion.<sup>161</sup> Paradoxically, Member States thus seem authorized to introduce digital exhaustion as a requirement for the application of specific rules, but not to provide for a general digital exhaustion principle under Article 4 InfoSoc.

147 Ibid paras 43-45.

148 *Ranks* (n 31) para 43.

149 Ibid para 50.

150 *VOB* (n 92).

151 Directive 2006/115/EC of the European Parliament and of the Council of 12 December 2006 on rental right and lending right and on certain rights related to copyright in the field of intellectual property (Rental Directive II), OJ L376/28.

152 *VOB* (n 92) paras 50-51.

153 Ibid para 27.

154 Ibid paras 41 and 42.

155 Ibid para 56, with reference to Article 1(2)(b) InfoSoc.

156 Ibid paras 33-34.

157 Ibid para 45.

158 AG Szpunar Opinion in *VOB* (n 92) para 29, who deems “imperative to give legal acts an interpretation which takes into account developments in technology, markets and behaviour and not to fix such acts in the past by adopting too rigid an interpretation”.

159 *VOB* (n 92) para 60.

160 Ibid paras 61-63.

161 Ibid para 64.



- 54 Albeit more progressive, the decision in *VOB* missed the opportunity to offer systematic guidance.<sup>162</sup> As in *UsedSoft*, the CJEU escaped the strictness of the InfoSoc Directive and the Agreed Statement on the WCT by declaring the Rental Directive II *lex specialis*, and the lending right as outside the scope of the Treaty. Compared to the much more detailed and comprehensive AG's Opinion, there is no attempt to connect the ruling with previous decisions, nor any willingness to offer a more holistic answer to the debate on the functional equivalence of tangible and intangible copies.
- 55 The result of the narrowly-focused approach to the problems raised by the strict literal interpretation of the InfoSoc Directive is a patchwork of *ad hoc* solutions, carving out exceptions to the general rule and lacking any systematic coherence and consistency. This would not be the first time that the unclear relationship between the InfoSoc and other subject-specific directives creates interpretative problems of the CJEU.<sup>163</sup> Yet, while the Court usually aims at reaching horizontal uniformity in the terminology and principles used in a given area, here its case law is characterized by a deliberately extreme fragmentation, justified through the redundant recourse to the "lex specialis" argument to erode the scope of the InfoSoc Directive and the WCT. This approach has not provided any clear principle to guide future decisions, to the detriment of legal certainty, nor has it followed consistent economic or value-based considerations that could make its output foreseeable and internally coherent. Many of the most compelling interpretative questions have remained unsolved, or touched upon with unrelated, concise *dicta*.
- 56 Should this not be enough, the degree of systematic confusion is possibly increased by the use of exhaustion-like arguments in other copyright matters.

162 For a more detailed comment, see Caterina Sganga, 'Public e-Lending and the CJEU: Chronicle of a Missed Revolution Foretold' [2016] 1(1) *Opinio Juris* 1, n.2. For an interpretation of the decision as rejecting digital exhaustion under Article 4 InfoSoc, see ALAI (n 73) 6.

163 The difficulties faced by the CJEU in drawing the boundaries between copyright-related directives are noted and commented on by Matthias Leistner, 'Europe's copyright law decade: Recent case law of the European Court of Justice and policy perspectives' [2014] 51(2) *CMLR* 559, 595; Mireille van Eechoud, 'Along the Road to Uniformity – Diverse Readings of the Court of Justice Judgments on Copyright Work' [2012] 1 *JIPITEC* 83, paras 90 ff. (with reference to the autonomous interpretation). On the teleological rather than contextual interpretative approach adopted by the CJEU, particularly as opposed to Advocate Generals, see Marcella Favale, Martin Kretschmer, Paul C Torremans, 'Is There a EU Copyright Jurisprudence? An Empirical Analysis of the Workings on the European Court of Justice' [2016] 79(1) *Modern Law Review* 31, at 59–61.

### III. Exhaustion-like principles outside the borders of the distribution right?

- 57 Paradoxically if compared to the strong aversion towards digital exhaustion, the CJEU's case law shows evidence of exhaustion-like principles in different areas, with the chief example being the construction of the boundaries of exclusive rights. Commentators have mostly highlighted the concepts and arguments used by the Court in defining the scope of the right of communication to the public under Article 3 InfoSoc, particularly in the digital environment.<sup>164</sup> From *Svensson* on,<sup>165</sup> the CJEU has consistently held that the rightholder's authorization is needed every time the communication is directed to a "new public", which is a public that the rightholder has not targeted or envisioned when she first released the work, or is it conveyed through a "new technical mean" compared to the first authorized transmission.<sup>166</sup> This implies that hyperlinking to or framing a website that contains publicly and lawfully available materials will not constitute an infringement,<sup>167</sup> while Article 3 InfoSoc will be violated if the link gives access to restricted content,<sup>168</sup> or if a freely accessible cable broadcasted program is streamed online without the rightholder's authorization.<sup>169</sup>

164 See, eg, Mezei (n 7), para 159, and Benabou (n 21), 351–378.

165 Case C-160/15 *Nils Svensson and Others v Retriever Sverige AB* [2014] EU:C:2014:76. The case law dealing with the notion of communication to the public in the online environment built on the criteria already developed by the Court in landmark decisions such as Case C-306/05 *Sociedad General de Autores y Editores de España (SGAE) v Rafael Hoteles SA* [2006] ECR I-11519; Case C-135/10 *Società Consortile Fonografici (SCF) v Marco Del Corso* [2012] EU:C:2012:140; Case C-607/11 *ITV Broadcasting Ltd and Others v TVCatchUp Ltd* [2013] EU:C:2013:147, and Case C-351/12 *OSA – Ochraný svaz autorský pro práva k dílům hudebním os. v Léčebné lázně Mariánské Lázně as* [2014] EU:C:2014:110.

166 After *Svensson* the various criteria, defined interdependent and complementary but not cumulative, have been clarified and reiterated by, *inter alia*, Case C-466/12 *GS Media BV v Sanoma Media Netherlands BV and Others* [2016] EU:C:2016:644; Case C-117/15 *Reha Training Gesellschaft für Sport- und Unfallrehabilitation mbH v Gesellschaft für musikalische Aufführungs- und mechanische Vervielfältigungsrechte eV (GEMA)* [2016] EU:C:2016:379; Case C-527/15 *Stitching Brein v Jack Frederic Willems (Filmspeler)* [2017] EU:C:2017:300.

167 As in *Svensson* (n 165) para 24.

168 As in *GS Media* (n 166) esp. paras 43 and 49.

169 As in *ITV Broadcasting* (n 165) para 40, and later in C-265/16 *VCAST Limited v RTI SpA* [2017] EU:C:2017:913.

- 58 The criteria, broadly criticized for their subjective nature and weak grounding in the legislative text,<sup>170</sup> take the first exploitation of the work as a condition upon which any subsequent communication, if identical in the technical means used or the public to which it is directed, ceases to be subject to the rightholder's control. It is not difficult to note the great similarity between this judge-made doctrine and the principle of exhaustion of the distribution right, both in their mechanism and in the rationale justifying their operation.<sup>171</sup> Setting the boundaries of Article 3 through the notions of new public and new technical means curtails rightholders' exclusivity to the first voluntary making available of their work, under the presumption that this act was based on a reasoned selection of the markets to exploit, and was enough for them to obtain an appropriate remuneration. In fact, the approach seems to be inspired by the same distinction between exploited and yet-to-be-exploited markets, based on the reward theory and the notion of appropriate remuneration, used to set the scope of Community exhaustion in the past. Once the remuneration goals are met, other rights and freedoms prevail in the copyright balance, for the control over the work is no longer deemed necessary to ensure a high level of protection to rightholders, and for copyright to achieve its functions.<sup>172</sup>
- 59 Significantly, these precedents show more stability and consistency than the decisions which have (collaterally) intervened on the question of digital exhaustion, where the CJEU does not seem to be similarly concerned by the effects that its rulings might have on the economic and technical equilibria of EU copyright law. There are, in fact, a number of reasons, both legal and economic, why EU copyright law would need a horizontal principle of digital exhaustion. The next pages will briefly highlight some of them, before suggesting how to tackle the legislative silence on the matter.

170 Chiefly European Copyright Society, 'Opinion on the Reference to the CJEU in Case C-466/12 Svensson', <<https://europeancopyrightsocietydotorg.files.wordpress.com/2015/12/european-copyright-society-opinion-on-svenssonfirst-signatoriespaginatedv31.pdf>>, accessed 13 September 2018; P Bernt Hugenholtz and Sam Van Velze, 'Communication to a New Public? Three Reasons Why EU Copyright Law Can Do without a "New Public"' [2016] 47(7) IIC 797; Jane C. Ginsburg: 'Hyperlinking and "making available"' [2014] 3 EIPR 147; Pekka Savola, 'Blocking Injunctions and Website Operators' Liability for Copyright Infringement for User-Generated Links' [2014] 5 EIPR 279.

171 Similarly Benabou (n 21), at 351-378.

172 Benabou (ibid 366) argues that the same arguments feature, in different forms, the functional interpretation of the scope of exceptions in *FAPL* (n 63), and the case law that followed, from Case C-201/13 *Johan Deckmyn and Vrijheidsfonds VZW v Helena Vandersteen and Others* [2014] EU:C:2014:2132 to Case C-117/13 *Technische Universität Darmstadt v Eugen Ulmer KG* [2014] EU:C:2014:2196, and *VOB* (n 92).

## D. Why EU copyright law needs digital exhaustion

### I. Legal reasons: from systematic consistency to teleological coherence

- 60 With a decision in favor of digital exhaustion, the Court would again be able to ensure consistency in the systematic reading of the various copyright-related directives, and coherence in their teleological interpretation.
- 61 On the side of systematic consistency, the CJEU could tackle a number of unsolved short-circuits that have emerged in the construction of EU copyright law. To name but the most important ones, the reference goes to the negative effects of the *lex specialis* argument, the uneven definition of the boundaries of Article 4 InfoSoc, the blurred borders between distribution and communication to the public, the problematic extension of the autonomous concept of sale, and the functional interpretation of the sale-license dichotomy.

#### 1. Systematic consistency: (i) tackling the negative effects of the *leges speciales* patchwork

- 62 To be able to read similar notions ("distribution" and "copy") in a different manner and exclude the application of Article 3 InfoSoc to the download of a software copy, the Court was forced to define the Software Directive II as a *lex specialis*, inspired by different intentions and goals.<sup>173</sup> The theory has been vastly criticized for valid systematic observations. The WCT, in fact, does not provide different rules for different subject matters, but only requires extending copyright protection to software and databases.<sup>174</sup> One could argue that the EU legislator decided to make a step forward compared to the Treaty, and to regulate the sector differently in light of the specific features of computer programs and their market. However, this assumption does not have a real basis, and may attribute to the EU legislator intentions it never had.
- 63 In fact, the Software Directive I, enacted five years before the adoption of the WCT, contained exactly the same language as the 2009 Software Directive II, which introduced very few amendments to the 1991 text, and none of them were dictated by

173 As in *UsedSoft* (n 2) para 51.

174 See, e.g., *Spedicato* (n 7) 49-50, and *Mezei* (n 7) para 179.

the adhesion of the EU to the WCT. In addition, neither the preamble of the Software Directive II, nor its preparatory works make any reference to the intention to depart from the InfoSoc Directive. The *lex specialis* argument is grounded on Article 1 (“this Directive shall leave intact and shall in no way affect existing Community provisions relating to (...)”) and Recital 20 InfoSoc, which declares that the InfoSoc text should be without prejudice to the provisions of previous copyright-related directives. Still, the same Recital also states that the InfoSoc Directive is based on principles and rules already laid down by its predecessors, and “it develops those principles and rules and places them in the context of the information society”. This last statement may well suggest the intention of the EU legislator to use InfoSoc as an updated general framework for areas covered by previous acts, unless otherwise specified. Such a reading would explain why the Software Directive II does not contain the right of communication to the public, nor the making available right – an omission that would otherwise constitute patent violation of the WCT, unless the distribution right under Article 4 Software II is interpreted as covering also transmissions, retransmissions and on-demand access to the program.<sup>175</sup> *UsedSoft* is everything but clear on this point, leaving the definition of the spaces of cogency of the InfoSoc Directive and the consequence of the label “*lex generalis*” open to interpretation.

- 64 Until now the Court has carefully avoided these interpretative problems, trying to curtail the effects of *UsedSoft* (*Nintendo*,<sup>176</sup> *Ranks*), or worsened them, using the *lex specialis* argument in other areas (*VOB*), again with the aim of circumventing the tangible-only reading of “copy” imposed by the WCT and the InfoSoc Directive. Now that it is called to decide on the admissibility of a general principle of exhaustion under the InfoSoc Directive, the Court may take the opportunity to reorder its fragmented case law, and to clarify the implications of the *lex generalis-lex specialis* dichotomy, with particular regard to the role of the InfoSoc Directive’s principles, rules, and definitions in areas covered by other subject-specific directives. In this context, a teleological decision in favor of digital exhaustion, on the basis of the policy arguments advanced in *UsedSoft*, would offer a more adaptive and reasonable reading of the tangibility requirement, reducing the need for Pindaric recourses to the *lex generalis-lex specialis* alibi, and their negative effect of the overall systematic clarity of the CJEU’s case law.

## 2. Systematic consistency: (ii) providing a single autonomous notion of sale across EU copyright law

- 65 Another controversial element is given by the introduction of an autonomous EU notion of “sale” in *UsedSoft*, qualified as the transfer of ownership, upon a payment, of a tangible or intangible object.<sup>177</sup> The definition is in line with the common core of Member States’ laws and doctrinal restatements such as the DCFR,<sup>178</sup> but it clashes with the notion of sale that would derive from Recital 29 InfoSoc if the distribution right is limited to tangible objects. Should this reading be maintained, the peculiar exegetic result would be the contemporary presence of two autonomous notions of sale within a single area of EU law. The same would happen to the functional re-labelling of licenses as sales in presence of specific characteristics, made possible under the Software Directive II by *UsedSoft*, but destined to clash with the barriers posed by Recitals 28 and 29 InfoSoc. While it is true that the Software Directives may appear as opening the notion of distribution to any channel of commercialization, whereas the InfoSoc Directive seems to imagine a bipolar world where tangible distribution via sale belongs to the material world, while intangible communication to the public/making available via license dominates the online environment, it should also be considered that such a difference may depend on the fact that it was clear already in 1991 that software programs were dematerialized creations which could be distributed in different but functionally equivalent forms and manners, while in 2001 the same was not fully perceived for more traditional works.<sup>179</sup> Realizing this hiatus and applying the same principle of functional equivalence in the context of the InfoSoc Directive in order to allow, *inter alia*, digital exhaustion would make sure that similar market evolutions are treated analogously, and that the definitions of each directive remain updated, and its goals effectively pursued despite the change.

## 3. Systematic consistency: (iii) uniformity in the method of interpretation used for Article 4(1) and 4(2) InfoSoc

- 66 Further systematic inconsistencies have arisen from the bipolar attitude of the CJEU towards Article 4 InfoSoc, where the rigidity shown with the literal

175 But contra Linklater (n 67) para 27.

176 Case C-355/12 *Nintendo Co. Ltd, Nintendo of America Inc., Nintendo of Europe GmbH v PC Box Srl and 9Net Srl* [2014] EU:C:2014:25.

177 *UsedSoft* (n 2) para 42.

178 See Christian Von Bar, Eric Clive, Hans Schulte-Nolte et al. (eds), *Principles, Definitions and Model Rules of European Private Law – Draft Common Frame of Reference, Outline Edition* (Sellier 2009), 278, IV. A. – 1:202: Contract for sale.

179 Similarly, Mezei (n 7) paras 142 ff.

interpretation of the tangibility requirement contrasts with the flexible, teleological reading of the activities covered by the provision. Precedents like *Dimensione Direct Sales*<sup>180</sup> have pushed the borders of Article 4 much beyond the mere sale or other transfer of ownership of the protected work, reaching out to preparatory acts such as offers to sell and advertisement, even if they do not materialize in actual sales.<sup>181</sup> The Court has justified the departure from the letter of the law with the need to pursue a high level of protection of rightholders as required by Recital 9 InfoSoc.<sup>182</sup> Yet, no similar interpretation has ever been followed to adapt the implementation of Article 4 InfoSoc to new objects excluded in light of the Agreed Statement. The teleological opening of the InfoSoc Directive to digital exhaustion, on the model traced by *UsedSoft*, would help to harmonize the approach to the provision, admitting its extension to digital copies when needed for exhaustion to still perform its function and achieve the goals underlying Article 4(2) InfoSoc. The spillover effect of the functional reading of the provision would be a clearer definition of the boundaries between communication to the public and distribution, with the latter covering every act which, even if involving an intangible copy or distribution means, cannot fall under Article 3 InfoSoc for it entails a transfer of ownership.

#### 4. Coherence in the teleological interpretation of existing sources

67 The acceptance of digital exhaustion under the InfoSoc Directive would also guarantee coherence in the teleological interpretation and implementations of legal solutions which largely share the same goals. In *UsedSoft* the objectives underlying Article 4(2) Software II play a key role in justifying the equal treatment of tangible and intangible copies and the functional re-labelling of a license agreement as a sale. One would expect the same reasoning to inspire the interpretation of Article 4(2) InfoSoc, and particularly to justify a softening of its literal interpretation with the aim of guaranteeing that the provision keeps on performing its function in the now-dominant digital market of protected works. More generally, the acceptance of a horizontal principle of digital exhaustion would be conducive to the fulfillment of some of the key objectives the EU legislator attributed to the InfoSoc Directive, such as the implementation of the four freedoms (Recital 3) and the non-distortion of competition in the internal market (Recital 1), once again in light

of the increasing predominance of digital markets of protected works over traditional ones, and the challenges their features pose to (and opportunities they offer for) the realization of such goals. These and other economic reasons prove the functional equivalence of traditional and digital markets *vis-à-vis* the necessity of exhaustion, and support its introduction in the digital environment.

## II. (Some) economic reasons: the functional equivalence of traditional and digital markets *vis-à-vis* the necessity of exhaustion

68 Back in 2010 already, market data reported a higher sale of e-books than hardbacks,<sup>183</sup> while the shift towards new online, digital business models in the music, movie and software industries can be traced back to the early 2000s.<sup>184</sup> As of today, digital copyright markets have largely outgrown more traditional means and forms of commercialization of protected works. Yet, while exclusive rights have been adjusted to the new environment, either by legislative interventions or with the help of axiologically-inspired court decisions, their limitations have faced substantial contractions, together with other tools used to maintain the copyright balance.<sup>185</sup> Exhaustion makes no exception to this trend.

69 The principle has traditionally answered to a number of balancing needs emerging in the market of copyright-protected works. Interdisciplinary studies have evidenced four main areas where exhaustion

180 Case C-516/13 *Dimensione Direct Sales Srl, Michele Labianca v Knoll International SpA* [2015] EU:C:2015:315.

181 *Ibid* para 33.

182 *Ibid* para 34.

183 See, e.g., Dylan F. Tweney, 'Amazon Sells More E-Books Than Hardcover', WIRED (July 19, 2010), <<http://www.wired.com/epicenter/2010/07/amazon-more-e-books-than-hardcovers>>.

184 Jacqui Cheng, 'Forget the Box: Downloads Dominate Online Software Purchases', *Ars Technica* (May 28, 2010), <<http://arstechnica.com/software/news/2010/05/forget-the-box-downloadsdominate-online-software-purchases.ars>>, accessed 13 September 2018.

185 One of the first analyses of the negative impact of the digital revolution on the copyright balance can be found in Jessica Litman, *Digital Copyright* (Prometheus Books 2006), 35-70. Along the same lines, *inter alia*, see Giuseppe Mazziotti, *EU Digital Copyright Law and the End-User* (Springer Verlag 2008) 15-39, 77-109; Neil W Netanel, *Copyright Paradox* (OUP 2008) 54-80; Tana Pistorius, 'Copyright in the Information Age: the Catch-22 of Digital Technology' [2006] 20 *North Cultural and Media Studies* 47; Matthew Rimmer, *Digital Copyright and the Consumer Revolution: Hands off My iPod* (Edward Elgar 2007); Lawrence Lessig, *Free Culture: How Big Media Uses Technology and Law to Lock Down Culture and Control Creativity* (Penguin 2004); James Boyle, 'The Second Enclosure Movement and the Construction of the Public Domain' [2003] 66 *Law & Contemp Probs* 33.

is the most likely to strike a balance between copyright enforcement and conflicting policy objectives; namely, access, preservation, privacy and reduction of transaction costs.<sup>186</sup> More recently, other commentators have proven the functional equivalence of traditional and digital markets in this respect, and pinpointed other positive effects which exhaustion could have by fostering opportunities and tackling distortions that are characteristic of the digital environment.<sup>187</sup>

## 1. Access, preservation, privacy and reduction of transaction costs

70 Exhaustion reduces the social cost of monopoly by increasing the availability and affordability of protected works achieved through the rise of secondary markets where consumer costs are recouped through resale, while competition is higher and bolsters the development of effective distribution models.<sup>188</sup> In response, copyright holders are pushed to control excesses in their supra-competitive prices, cover as many geographical markets as possible, and engage in positive price discrimination to make sure that they can still attract low-income consumers away from the second-hand market.<sup>189</sup> This is not different but even truer for digital markets, where rightholders can exercise a much more pervasive control over the uses of the protected work, and reduce or exclude access from particular geographical areas, in spite of the delocalization and almost inexistent distribution costs, which were made possible by the internet.

71 Copyright owners have opposed digital exhaustion, arguing that secondary markets would increase the risk of piracy and cannibalize the original market of the work, thus decreasing accessibility, and ultimately hinder price discrimination and affordability, with a consequent loss of consumer welfare.<sup>190</sup> These arguments, similar to those used

lack empirical evidence in support, and a number of economic studies have already proven them wrong, identifying technological measures which could effectively control piracy and avoid instances of unfair competition.<sup>191</sup> The CJEU have followed the same reasoning in *UsedSoft*: its teleological statements supporting the innovative interpretation of Article 4(2) Software II are all grounded on the belief of a similar if not increased need for exhaustion in the digital environment, while the introduction of technical requirements to ensure the functional equivalence between tangible and digital resales answers to the risks voiced by rightholders. With no real economic difference between software and other digital works in this respect, it would be hard for the Court to deny the existence of similar needs and concerns with respect to the scope of Article 4(2) InfoSoc.

72 The development of secondary markets allowed by the principle of exhaustion also helps to increase access to out-of-commerce and orphan works, contributing to the preservation of cultural heritage.<sup>192</sup> While this has been particularly important in the material world, it might have other positive implications in the digital environment, where the pervasive control exercised by rightholders may allow them to withdraw their works from the market in very little time, leading to their irreversible disappearance from the online environment.<sup>193</sup>

73 Albeit not intuitively, exhaustion plays a key role in protecting privacy and secrecy, per se and in their positive effects on competition. By excluding the rightholder's control over subsequent transfers of the work, the principle makes it possible to avoid the tracking and identification of buyers.<sup>194</sup> This

186 See Liu (n 56); Reese (n 11); Molly Shaffer Van Houweling, 'The New Servitudes' [2008] 96 Georgia Law Journal 885.

187 The most comprehensive being Perzanowski-Schultz (n 8).

188 As in Reese (n 11), 587.

189 See Douglas Lichtman, First Sale, First Principles, Media Institute (April 26, 2010) <[http://www.mediainstitute.org/new\\_site/IPI/2010/042610\\_FirstSale.php](http://www.mediainstitute.org/new_site/IPI/2010/042610_FirstSale.php)>, accessed 13 September 2018.

190 Perzanowski-Schultz (n 8) 895; Nakimuli Davis, Reselling Digital Music: is there a Digital First Sale Doctrine? [2009] 29(3) Loyola Entert LR 363, 370-371, but see contra Tai (n 71) 210; Friedrich Ruffler, 'Trading in Used Software an Infringement of Copyright? The Perspective of European Law' [2011] 6 EIPR 378; BM Kawabata, Unresolved Textual Tension: Capitol Records v. ReDigi and a Digital First Sale Doctrine [2014] 21(1) UCLA Entert LR 33, 76.

191 E.g., Wendy Gordon, 'Intellectual Property as Price Discrimination: Implications for Contracts' [1998] 73 Chi-Kent L Rev 1367, showing how secondary markets are better than monopolistic markets in implementing successful price discrimination; Anindya Ghose, Michael D Smith, Rahul Telang, Internet Exchanges for Used Books: an Empirical Analysis of Product Cannibalization and Welfare Impact' [2006] 17 Info Sys Res 3, highlighting how 84 percent of used books sold on Amazon are purchased by buyers who would have not been able or willing to pay the price set for the original copy by the rightholder; Study pursuant to Section 104 of DMCA (n 99), Conclusions; Evan Hess, Code-ifying Copyright: an Architectural Solution to Digitally Expanding the First Sale Doctrine' [2013] 81 Fordham L Rev 1965.

192 Reese (n 11), 594-5, 599.

193 Deirdre K. Mulligan and Jason M. Schultz, 'Neglecting the National Memory: How Copyright Term Extensions Compromise the Development of Digital Archives' [2002] 4 J App Prac & Process 451. See also the empirical evidence brought by Anna Vuopala, Assessment of the Orphan Works Issue and Costs for Rights Clearance (May 2010), <[http://ec.europa.eu/information\\_society/activities/digital\\_libraries/doc/reports\\_orphan/anna\\_report.pdf](http://ec.europa.eu/information_society/activities/digital_libraries/doc/reports_orphan/anna_report.pdf)>, accessed 13 September 2018.

194 See Cohen (n 19) 993.

is not only relevant in case of sensitive and/or controversial content, where anonymity reassures potential acquirers and thus avoids chilling effects on access, but it has a much broader preventive power against consumers' profiling,<sup>195</sup> and can limit the control of rightholders over, for instance, competitive reverse engineering or product review in case of technical works.<sup>196</sup> Needless to say, the need for balance is much stronger in the digital environment, given that the possibilities of tracking and profiling are exponentially increased, and the rightholder's power to control consumers' and competitors' behaviors is much more effective and broader in scope.

- 74 Last, commentators refer to the positive effect of exhaustion in avoiding the transaction costs which would spike should rightholders have the possibility to variously limit and control the use of the protected work, particularly if each work or format would be subject to different conditions. Severing the power to determine the fate of the copy after the first sale, the principle makes any contractual agreement to the contrary unenforceable, thus levelling the terms of use of the work to the standard determined by the copyright statute.<sup>197</sup> In this sense, digital exhaustion would be needed even more than material exhaustion. In fact, digital works are commercialized via complex End User License Agreements (EULAs), which carve out this or that use depending on the type of work, business model or price of the copy, producing even greater market inefficiencies and increasing information and transaction costs, and the same consequences on consumers' behaviors, which oscillate between avoiding the purchase or ignoring the terms of the license.<sup>198</sup>

## 2. Increased innovation and platform competition

- 75 Together with the balancing needs that are present both in the material and digital markets, the principle of exhaustion is capable of realizing additional benefits in the digital environment, which scholars have identified in increased innovation and platform competition.<sup>199</sup>

195 Ibid.

196 Perzanowski-Schultz (n 8) 896.

197 As in Van Houweling (n 186) 897-898.

198 Ibid. The latter point is particularly important, as it proves wrong those arguments which attribute to consumers the capability to drive the market by selecting the best bargain and rejecting extremely restrictive terms. In fact, empirical studies prove that consumers tend to ignore contractual terms unless they are essential to the purchase (ibid 932-933).

199 Broadly Perzanowski-Schultz (n 8) 897 ff.

- 76 The competition with secondary markets created by exhaustion pushes copyright owners to ameliorate their products in order to make them remain attractive against used copies, originating innovation in the form of new versions, premium content, additional features and updates.<sup>200</sup> Similarly, it triggers the development of new business models, targeting the same audience which could be attracted by what secondary markets could offer.<sup>201</sup> Not least, the availability of low-cost copies no longer under the rightholders' control facilitates innovations which, if competing with the original work or its mode of exploitation, would probably be hindered by the rightholders themselves.<sup>202</sup> Exhaustion is also capable of diminishing consumers' lock-in, which usually happens when the costs of switching from the current to a new, more favorable/competitive product are too high, creating barriers for new competitors, and thus stifling innovation. By allowing the resale of used products and thus the recovery of part of the sum invested in the first product, exhaustion decreases the switch costs, and the same is done by the lowered price of the new platform made possible by the competition of secondary markets.<sup>203</sup>

- 77 The clear advantages that digital exhaustion would bring, countered by limited risks for the original market of the work which could easily be controlled through new technologies, justify a convinced plea for its introduction, render the judicial and legislative obliteration on the matter hardly explicable, and indicate a rather obvious way forward.

## E. The way forward

### I. Waiting for Godot, again: what the legislator could have done but has not done it yet

- 78 Most commentators agree on the fact that the current language of the InfoSoc Directive makes it quite difficult for the CJEU to proceed to a judicial

200 Ibid 898.

201 The same effect of creating incentives to innovation is attributed to fair use. See Fred von Lohmann, 'Fair Use as Innovation Policy' [2008] 23 Berkeley Tech LJ 829.

202 The most famous example is Netflix, which used the first sale doctrine to be able to commercialize titles which rightholders preferred to keep out from online distribution deals. See Transcript of Netflix, Inc. Q3 2009 Earnings Call (Oct. 22, 2009) (statement of Netflix CEO Reed Hastings), <<http://seekingalpha.com/article/168407-netflix-inc-q3-2009-earnings-call-transcript>>, accessed 13 September 2018.

203 Perzanowski-Schultz (n 8) 990.

introduction of digital exhaustion.<sup>204</sup> They also share the view, however, that the legislative approach is outdated and does not respond to the technological and business models (r)evolution of the past two decades, where most of the protected works are commercialized in a digital form and/or online, and technological measures of protection can effectively control the additional piracy risks triggered by the digital version of the principle.

- 79 Receptive to the doctrinal debate and to the “earthquake” caused by *UsedSoft*, the Commission decided to include the matter in its public consultation on the review of EU copyright rules, asking whether exhaustion should find application also “in the case of an act of transmission equivalent in its effect to distribution (i.e. where the buyer acquires the property of the copy)”.<sup>205</sup> The text of the consultation also highlighted the difficulties underlying the practical implementation of the mechanism, from the higher risk of piracy caused by the possibility for re-sellers to keep their copy, to the economic impact that a second-hand market of never-deteriorating copies may have on the original market of the work.<sup>206</sup> As expected, industrial rightholders and intermediaries opposed the idea, upholding the Commission’s concerns on the impact that digital exhaustion would have on copyright incentives and market equilibria, while private and institutional users and part of the authors supported its introduction, advancing the same arguments that have traditionally backed material exhaustion.<sup>207</sup> Among the Member States which took a position on the matter, France underlined that the EU international obligations under the WCT stood against the extension of the principle to the digital environment.<sup>208</sup>
- 80 The last assertion has been challenged by several scholars.<sup>209</sup> The Treaty provides for a minimum standard of protection for a range of exclusive rights, setting up a “floor” and not a “ceiling”. In this sense, Article 6 WCT requires the provision of a distribution right having certain characteristics, and leaves the freedom to determine the conditions of its exhaustion to contracting parties, but it does not prevent them from defining the online sale of digital works as distribution, attaching to a digital distribution a digital exhaustion. This would not overlap nor contradict the existence of the right of communication to the public, which entails a transmission of the work and not, as distribution,

the transfer of ownership over a copy.

- 81 Despite the fact that a large part of the Digital Single Market Strategy has been framed around the need to provide better access to online goods and services in the Union, removing national barriers and closing the regulatory gap between digital and material markets,<sup>210</sup> the 2016 proposal of a Directive on Copyright in the Digital Single Market<sup>211</sup> completely omits referring to digital exhaustion which, as seen above, could play a significant role in facilitating availability and affordability of digital content. The omission is left unexplained, with no reference to the matter in preparatory works. The question seems to have disappeared from the table, overcome by more pressing and harshly debated proposals of reform.<sup>212</sup>
- 82 Should the EU legislator decide to intervene, the introduction of digital exhaustion would require few amendments to the InfoSoc Directive. The extension of the principle could be reached by either removing the limitations enshrined in Recitals 28 and 29 and excluding the sale of digital works from the definition of “services”, or by introducing an additional provision devoted to digital distribution and its exhaustion. The second option would be preferable, as it would allow a specification of the technical requirements of the resale necessary to control its impact on the original market of the work (e.g. removal of the copy by the seller, use of digital rights management tools), and clarify what should be considered as a sale or other transfer of ownership, in order to avoid circumventions of the provision similar to those tackled by the *UsedSoft* ruling. No other intervention would be needed, since the new digital distribution right and its exhaustion would be clearly distinguished from the right of communication of the public, entailing only transmission or retransmission of a work by wire or wireless means and no other act (Recital 23), and from the making available right, covering only interactive on-demand transmission individually decided in time and place by the user (Recital 25).
- 83 Absent, however, is any sign of policy interest towards the problem in the current discussion on the copyright reform package, which will still absorb the attention and energies of the EU legislators in the months to come, it is reasonable to believe that with the *Tom Kabinet* case, the CJEU will decide alone on the fate of the principle in EU copyright law. Yet, there are still two potential interim judicial solutions to bridge the legislative gap: the

204 *Supra*, at 19.

205 See Public Consultation (n 23) 13, question 13.

206 *Ibid.*

207 Report on the responses (n 23) 20-22.

208 *Ibid.* 22.

209 Such as Spedicato (n 7), 48; Karapapa (n 12), 311; Mezei (n 7) para 144.

210 Communication on a Digital Single Market Strategy for Europe (n 24) 3.

211 Commission, ‘Proposal for a Directive of the European Parliament and of the Council on Copyright in the Digital Single Market’, COM (2016) 593 final.

212 As noted by Rosati (n 22) 681.

first implementable in *Tom Kabinet* to maintain the effectiveness of Article 4(2) InfoSoc through a less literal and more contextual and teleological interpretation; and the second left to the initiative of national courts, and aiming at invalidating the provision for disproportionate violation of Articles 7, 16 and 17 CFREU.

## II. Two interim solutions to bridge the legislative gap

### 1. A more contextual and teleological interpretation of existing sources

- 84 Despite the fact that a literal interpretation of existing sources gives little room for the judicial introduction of digital exhaustion under Article 4(2) InfoSoc, a more teleological and contextual approach may offer alternative solutions to the stalemate. For this purpose, the most logical starting point is represented by the roots of the principle at the EU level.
- 85 The doctrine of Community exhaustion was introduced as a balancing tool between copyright and fundamental freedoms. To draw its borders, the CJEU used the notion of essential function and the specific subject matter of copyright, which characterizes all its jurisprudence on Article 36 EC and on the interplay between IP and competition law: copyright protection prevails to the extent necessary for the core of the right to be preserved, and for the right to perform its essential function.
- 86 Theoretically, the CJEU can no longer directly apply an article of the Treaty to rule on matters on which the EU legislator has already introduced measures “necessary to achieve the specific objective which would be furthered by reliance on this provision”.<sup>213</sup> Since the InfoSoc Directive has introduced the principle of exhaustion with the aim of balancing copyright protection, competition and the freedom of movement of goods, this would rule out the possibility for the Court to intervene on it following its case law on Article 36 EC. However, the literal interpretation of Article 4(2) InfoSoc excludes the availability of a similar measure for the digital environment. By drawing a neat line between brick-and-mortar and online markets, imagining the first as characterized by the sale of works in a tangible form (distribution), and the second as dominated by the transmission, usually on demand, of digital works (communication to the public/making available), the Directive has left out the plethora

of business models, now dominant, featuring the commercialization of works in digital format with effects functionally similar to a sale.<sup>214</sup> Exactly as it happened to digital content under consumer protection law, this online “distribution” remains in a definitory limbo, with no measures tackling the threats it poses to fundamental freedoms and other conflicting rights and policies enshrined in the Treaty.

- 87 Against this background, it may be reasonable to infer that such a regulatory gap leaves space for the CJEU to intervene with a direct application of Treaty provisions, to the extent necessary to ensure the fulfillment of the Directive’s goals and the respect of Treaty principles and rules. The referral in the *Tom Kabinet* case may be the opportunity to reach this result.
- 88 A literal reading of the most relevant sources would lead, as seen above, to a negative response. Several variables, however, have changed, making it possible to propose a different interpretation.
- 89 First, a proposal for a Directive amending the VAT system, approved by the Parliament and currently under discussion before the Council, is set to enable Member States to charge a reduced VAT rate on e-books matching the rate applied to printed copies, inspired by principles of tax neutrality, equality of treatment, and a functional consideration of the growing importance and role of the e-book market compared to the market of printed books, particularly for cultural policy objectives.<sup>215</sup> This intervention subtracts e-books from the umbrella of services, yet without redefining them as goods, following the *tertium genus* approach adopted by the Consumer Rights Directive with respect to contracts on digital content.<sup>216</sup>
- 90 The decision responds to the momentous change in the forms of commercialization of copyright-protected works and in their proportion, now heavily tilted towards online digital consumption. A corollary of this transition has been the spread of business models where the acquisition of a digital work is no longer transient or heavily limited in its uses, but progressively more resembling a transfer of ownership.<sup>217</sup> This is particularly visible in the music

<sup>213</sup> The principle was spelled out in *The Queen v Minister of Agriculture, Fisheries and Food* (n 52) para 47.

<sup>214</sup> Similarly, see Mezei (n 7) paras 182-183.

<sup>215</sup> Proposal for a Council Directive amending Directive 2006/112/EC (n 89).

<sup>216</sup> CRD, Recital 19 (n 95).

<sup>217</sup> On the evolution of the business models for the online commercialization of digital copyright content, see the empirical analysis conducted by Maurizio Borghi, Mariateresa Maggolino, Maria Lilla Montagnani and Massimiliano Nuccio, ‘Determinants in the online distribution of digital content: an exploratory analysis’ [2012] 3(2) European Journal for Law and Technology 1.



and book markets, where more expensive versions of the same copy are DRM-free or anyway allowing the enjoyment of the product for an unlimited period of time and without substantial use limitations.<sup>218</sup> Parallel to this, is the fact that the distribution models have also changed. As it happened for software programs, digital works can now be enjoyed as a product, that is with a full transfer of the file, or as a service, that is through access to a platform where the file is centrally hosted and from which it is transmitted to the user.<sup>219</sup>

- 91 As a consequence, the traditional distinction on which the InfoSoc Directive was based has become fully outdated. Between the scope of the right of communication of the public and making available right (Article 3 InfoSoc), covering the dematerialized transmission of digital works as services, and the scope of the right of distribution (Article 4 InfoSoc), covering the tangible transfer of works as products/goods, a new grey zone has emerged: that is the online transfer of digital works as products, which entails the buyer's acquisition of the work on its device, and not the mere access from a place and at a time individually chosen by them.<sup>220</sup> In this sense, the difference in features between software and other protected works, which would have justified a specific treatment for the former, has in fact ceased to exist.
- 92 To make sure that the goals of exhaustion are still achieved in the software market, in *UsedSoft* the Grand Chamber used the notion of functional equivalence between license and sale and between a tangible and intangible medium of distribution, and referred to *Peek & Cloppenburg* to set the boundaries of distribution as to cover any act of transfer of ownership.<sup>221</sup> The CJEU could avoid dealing with the borders between distribution and communication to the public thanks to the absence of a provision similar to Article 3 InfoSoc in the Software Directive

II.<sup>222</sup> In this sense, the question posed now by the District Court of the Hague requires an additional systematic effort to reach the same result.

- 93 The teleological argument advanced in *UsedSoft* can be mirrored without any modification in the *Tom Kabinet* case, for the factual matters at stake are almost overlapping, and so are the balancing objectives of exhaustion under the two directives. Having this as a guiding (interpretative) star, the obstacle posed by Recital 28 and the WCT can be circumvented with two considerations. The first is that the WIPO Treaty introduces a minimum and not maximum standard of protection;<sup>223</sup> the second is that – as mentioned above – the Court can recur to the direct application of Treaty provisions if the EU legislator has not provided measures directed to realize their goals. This means, on the one hand, that the tangible-only limitation of the Agreed Statement can be read as the lower and not upper edge of the protection to be granted to rightholders, and on the other hand that the principles developed by the CJEU when building and drawing the boundaries of Community exhaustion can be implemented here to shape a horizontal principle of digital exhaustion.
- 94 As to the first point, once it is assessed that the license commercializing the digital work is functionally equivalent to a sale, which attributes to the buyer something that is akin to an ownership, reasons of systematic consistency requires excluding the application of Article 3 InfoSoc<sup>224</sup> – a circumstance that triggers the need to “host” this form of exploitation under another right in order to keep on offering effective protection to rightholders. This may legitimately justify a stretch of the right of distribution to cover digital works without being afraid of breaching the obligations arising under the minimum threshold provided by WCT. As to the second point, and for the reasons illustrated above, the respect of those Treaty provisions that justified the introduction of Community exhaustion (freedom of circulation of goods and protection of competition in the internal market) may as well support

218 See, e.g., Press Release, EMI Music Group, EMI Music launches DRM-free superior sound quality downloads across its entire digital repertoire (2 April 2007), <<http://www.emigroup.com/Press/2007/press18.htm>> accessed 13 September 2018; similarly, Press Release, Apple, Apple Launches iTunes Plus, Higher Quality DRM-Free Tracks Now Available on the iTunes Store Worldwide (30 May 2007), <<https://www.apple.com/newsroom/2007/05/30Apple-Launches-iTunes-Plus/>>, accessed 13 September 2018. See also the study conducted by Natali Helberger, Kristof Kerenyi, Bettina Krings, Rik Lambers, Carsten Orwat, Ulrich Riehm, Stef van Gompel, Nicole Dufft, ‘Digital Rights Management and Consumer Acceptability: A Multi-Disciplinary Discussion of Consumer Concerns and Expectations’ in INDICARE Project report - State of the Art (December 2004), <[https://mpr.ub.uni-muenchen.de/6641/1/MPRA\\_paper\\_6641.pdf](https://mpr.ub.uni-muenchen.de/6641/1/MPRA_paper_6641.pdf)>, accessed 13 September 2018.

219 Borghi-Maggiolino-Montagnani-Nuccio (n 217) 21-25.

220 Ibid.

221 *UsedSoft* (n 2) para 52.

222 Ibid para 51.

223 In this sense also von Lewinski (n 38) 452, para 17.61, who opines that since the WIPO Treaties do not specify the content of the distribution right, “national law can take over the wording of the treaties, or implement the right by the so called droit de destination, which has been developed in France by jurisprudence on the basis of the reproduction right of authors. It may also make the narrow distribution right of the WCT and WPPT a part of a broad distribution right, which in addition includes transfer of possession such as rental”.

224 This would also be in line with Recital 29 InfoSoc, which excludes services from the scope of exhaustion, and Recitals 23-24, which makes it explicit that the right of communication and making available to the public should not cover any other act beyond those described by the Directive as within its scope.

the construction of the principle in the digital environment, coupled with new Treaty goals such as cultural policy objectives, to be achieved through a greater availability and affordability of protected works, and the respect of fundamental rights and freedoms, such as the right to property (Article 17 CFREU) and the right to privacy (Article 8 CFREU) of the buyer of the digital support, requested by the CFREU. Once it is proven that the making available of the work via download, for an unlimited period and for a price which corresponds to the economic value of a copy ensures an appropriate remuneration to the rightholder, so that the subject matter and essential incentivizing function of copyright is preserved, nothing prevents digital exhaustion to take place.

- 95 This systematic reordering would not only draw a fil rouge that connects the earliest CJEU's case law on exhaustion with the implementation of the principle on the most recent challenges raised by the digital economy, but it would also help to consolidate the functional reading of the notion of sale and its technical requirement (*id est* the application of technological protection measures to ensure that the second-hand sale of digital copies produces the same effects as the second-hand sale of tangible copies), sketch the borders between Articles 3 and 4 InfoSoc, and set aside the good-service dichotomy, which was introduced by Recital 29 beyond what was required by the WCT, and created interpretative problems ever since. Not least, the decision would be able to clarify the role of the InfoSoc Directive as *lex generalis*, reduce the need for future decisions to recur to the *lex specialis* argument, and clarify the degree of standardization introduced by the WCT and the margin of appreciation left to the EU and its Member States.
- 96 As to the act of reproduction needed in order to effectively transfer a digital work,<sup>225</sup> absent a provision authorizing the lawful acquirer to perform it as under Article 5 Software II, two potential solutions are still available under the InfoSoc Directive. The first may come from the

doctrine introduced in *FAPL*<sup>226</sup> and *Ulmer*,<sup>227</sup> which allowed an extension of the scope of exceptions when needed to ensure that they can still effectively pursue their goals. Applying the same principle to exhaustion, which may be understood as a limitation to copyright, it is possible to argue that a temporary reproduction of the file is necessary to finalize the transfer, and thus for the principle to materialize and produce its effects. As in *UsedSoft*, however, adequate technological measures, such as watermarking and forward-and-delete technologies, should ensure that the seller's copy is deleted upon alienation.<sup>228</sup> The second solution would leverage the mandatory exception of Article 5(1) InfoSoc, considering the transient reproduction as an essential part of a technological process whose sole purpose is to enable a lawful use of the work. Also in this case, appropriate measures such as forward-and-delete technologies should guarantee the temporary nature of the reproduction via the deletion of the copy from any seller's device.

## 2. A claim of invalidity of Article 4(2) InfoSoc for violation of Articles 7, 16 and 17 CFREU

- 97 Should the CJEU reject this approach in the *Tom Kabinet* case, offering a conservative reading of Articles 2, 3 and 4(2) InfoSoc, the second, less orthodox path passes through a claim of invalidity of Article 4(2) under Article 51(2) CFREU, for disproportionate restriction of the right to property (Article 17 CFREU), the right to respect of one's private life (Article 7 CFREU) and, in specific cases, the freedom to conduct a business (Article 16 CFREU), caused by the limitation of the scope of Article 4(2) InfoSoc to tangible copies only, with the exclusion of digital works.
- 98 Article 52(1) CFREU states that any restriction on the exercise of the rights and freedoms protected by the Charter must be provided by law, respect their essence, and, subject to the principle of proportionality, should be made only if necessary and meeting the objectives of general interest recognized by the Union, or the need to protect other rights and freedoms.<sup>229</sup> In the case of digital copies, absent digital exhaustion, the limitations to the

<sup>225</sup> This seems to represent a key point against the admissibility of digital exhaustion under the InfoSoc Directive, as well as it was the case in *UsedSoft* (n 2). In fact, even if technological protection measures are put in place to ensure the functional equivalence of digital and material second-hand sales, the transfer of a digital copy requires the performance of an act of reproduction that constitutes an infringement if not covered by an exception or authorized by the rightholder. See ALAI (n 73) 2. The so-called "new copy" theory, which maintains that any second-hand sale of digital files entails, in fact, an unauthorized reproduction and not the transfer of the same copy, has consistently been used by those national courts which in different settings and circumstances have rejected the notion of digital exhaustion. More details in Mezei (n 7) para 124-139, and ALAI (n 73) 2.

<sup>226</sup> *FAPL* (n 63), para 163.

<sup>227</sup> *Ulmer* (n 172) para 43.

<sup>228</sup> *UsedSoft* (n 2) paras 86-87.

<sup>229</sup> On the application, sources, interrelationship with other provisions of the Charter and implications of Article 52(1) CFREU, see the comment of Steve Peers, Sacha Prechal, 'Article 52 - Scope and Interpretation of Rights and Principles' in Steve Peers, Tamara Hervej, Jeff Kenner, Angela Ward (eds), *The EU Charter of Fundamental Rights: a Commentary* (Hart Publishing 2014) 1455-1522.

right to property derives from the control that the rightholder can exercise on the use of the support carrying the work even after its alienation. The same control, as discussed above, intrudes in many ways in the user's private life, allowing tracking and profiling and, more generally, monitoring the user's activities on a constant basis and limiting her autonomy. In more limited instances, the anti-competitive settings created by the absence of exhaustion may impact on the freedom to conduct a business of entities innovating in the second-hand market of digital products, as in the case of *Tom Kabinet*. The exclusion of exhaustion in case of digital works is justified – albeit not explicitly – by the prevalence of the protection of copyright, covered by Article 17(2) CFREU.<sup>230</sup>

- 99 On the example set by the *Digital Rights Ireland* case,<sup>231</sup> which builds on settled case law,<sup>232</sup> the assessment of the proportionality of the limitation of exhaustion to material copies, with the exclusion of intangible supports, may be construed as a two-prong test verifying the appropriateness and the

230 The scope and implication of Article 17(2) CFREU on the protection conferred to copyright, however, are widely debated. See, e.g., Christophe Geiger, 'Intellectual Property Shall Be Protected!?' – Article 17(2) of the Charter of Fundamental Rights of the European Union: A Mysterious Provision with an Unclear Scope' [2009] 31(3) EIPR 113; Jonathan Griffiths and Luke McDonagh, 'Fundamental Rights and European IP Law: The Case of Art. 17(2) of the EU Charter' in Christophe Geiger (ed), *Constructing European Intellectual Property Achievements and New Perspectives* (Edward Elgar 2013) 75 ff. According to the Praesidium, Explanations relating to the Charter of Fundamental Rights [2007] OJ C303/17, 23, the intent of the provision is to put a stronger emphasis on the growing importance of intellectual property in the EU, certifying the status quo rather than increasing the level of protection granted to IP rights. The same opinion is advanced by the comment redacted by the Commission's Network of Independent Experts on Fundamental Rights, 'Commentary of the Charter of Fundamental Rights of the European Union' (2006) <[http://ec.europa.eu/justice/fundamental-rights/files/networkcommentaryfinal\\_en.pdf](http://ec.europa.eu/justice/fundamental-rights/files/networkcommentaryfinal_en.pdf)>, accessed 13 September 2018, 165-166.

231 Joined Cases C-293/12 *Digital Rights Ireland Ltd v Minister for Communications, Marine and Natural Resources and Others* and C-594/12 *Kärntner Landesregierung and Others* [2014] EU:C:2014:238, paras 38 and 47. The CJEU draws here an analogy with the ECtHR decision *S. and Marper v. the United Kingdom* [GC], nos. 30562/04 and 30566/04, § 102, [2008] ECHR 2008-V.

232 Case C343/09 *Afton Chemical Limited v Secretary of State for Transport* [2010] EU:C:2010:419, para 45; Joined Cases C-92/09 *Volker und Markus Schecke GbR* and C-93/09 *Hartmut Eifert v Land Hessen* [2010] EU:C:2010:662, para 74; Joined Cases C-581/10 *Nelson et al v Deutsche Lufthansa AG* and C-629/10 *TUI Travel plc et al v Civil Aviation Authority* [2012] EU:C:2012:657, para 71; Case C283/11 *Sky Österreich GmbH v Österreichischer Rundfunk* [2013] EU:C:2013:28, para 50; and Case C101/12 *Herbert Schaible v Land Baden-Württemberg* [2013] EU:C:2013:661, para 29.

necessity of the measure to achieve its objectives.<sup>233</sup> To fit with the case at stake, the test would check the appropriateness of the measure on the basis of the principle of equal treatment of comparable situations,<sup>234</sup> and the necessity on the basis of the respect and fulfillment of the essential function and specific subject matter of copyright. The latter point would use the CJEU's jurisprudence on the matter as a reference, and the functions of copyright as declared by the copyright directives.<sup>235</sup>

## F. Conclusions

100 After a series of contradictory *obiter dicta* and controversial decisions, with the referral in the *Tom Kabinet* case, the CJEU will finally have the opportunity to clarify its position on the admissibility of digital exhaustion under Article 4(2) InfoSoc. The debate on the matter, long dormant due to the apparently straightforward exclusion of intangible supports from the scope of the distribution right (Article 4 InfoSoc) made by Recitals 28-29 InfoSoc and the Agreed Statement of the WCT, has revived after the *UsedSoft* decision, which extended the principle to digital copies of software acquired through sale-like licenses.

101 Due to the different legal, economic and technological features of brick-and-mortar and digital markets, the introduction of digital exhaustion has been challenged on the one hand by rightholders, afraid of its impact on piracy rates and on the original market of the work, and on the other hand questioned by judges and scholars, who found it incompatible with the current architecture of EU copyright law. Conceptualizing its extension to cover intangible copies commercialized online was inconsistent with the neat separation between distribution, limited to the sale or other transfer of ownership over tangible copies, and communication to the public/making available, covering dematerialized transmissions of the work, qualified as service and usually realized via licenses.

233 "The principle of proportionality requires that acts of the EU institutions be appropriate for attaining the legitimate objectives pursued by the legislation at issue and do not exceed the limits of what is appropriate and necessary in order to achieve those objectives" (Ibid para 46).

234 With particular regard to Article 4(2) InfoSoc, see AG Jääskinen's Opinion in case C-5/11 *Criminal proceedings against Titus Alexander Jochen Donner* [2012] EU:C:2012:195, para 71.

235 Along the same lines, but with reference to the identification and control of rightholders' dysfunctional conducts, see Caterina Sganga and Silvia Scalzini, 'From Abuse of Right to European Copyright Misuse. A New Doctrine for EU Copyright Law' [2017] 48(4) IIC 405.

- 102 While this construction could still work in 2001, when online markets were still embryonal, the drastic change in the forms of commercialization of copyright-protected works and in their proportion, now heavily tilted towards online digital consumption, has completely changed the framework. Digital works are now enjoyed both as a service, usually from a platform where the file is centrally hosted, or as a product, with a full transfer of the file akin to a sale. The latter represents a new grey zone, functionally closer to a distribution than to a communication to the public/making available. As a result of this momentous change, the same balancing needs that led to the introduction of exhaustion in traditional copyright law have now become pressing also in the digital environment, from preserving access to and availability of protected works to the protection of competition, innovation, and of a set of conflicting rights and freedoms – chiefly property, privacy and the freedom of movement of goods.
- 103 After *UsedSoft*, the CJEU’s case law touching directly or indirectly upon the matter has been fragmented and contradictory. When the tangible-intangible dichotomy risked producing negative effects in other areas of copyright law, altering the copyright balance or hindering the pursuance of copyright goals, the Court has tried to minimize them by recurring to teleological and systematic arguments such as *lex specialis* and functional equivalence, carving out exceptions to the InfoSoc and WCT diktat, as in *UsedSoft* and *VOB*. On the contrary, the interpretation of Article 4 InfoSoc has been characterized by a rigid literal interpretation, with no consideration of the features and shortcomings of digital markets, and no elaboration on whether and to what extent exhaustion could constitute a valid answer. This resulted in a system where the InfoSoc Directive remains a weak *lex generalis* against *leges speciales* which all admit, for different reasons and with different implications, digital exhaustion. Such an approach stands in clear contrast both with the attention to balancing principles that inspired the Court’s introduction of Community exhaustion in the 1970s, and with the use that the Court has recently made of exhaustion-like arguments in other matters - the most eloquent one being the definition of the borders of the right of communication to the public.
- 104 The most appropriate solution to the stalemate would be a legislative intervention on the InfoSoc Directive, either through eliminating the limits imposed by Recital 28 and 29 or by adding a new provision on digital distribution and exhaustion. This would not run counter to the WCT, which is an act of minimum standardization that does not prevent the extension of distribution and its exhaustion to cover the online transfer of ownership over digital works, which represent a grey zone between Articles 3 and 4 InfoSoc. However, despite a vast array of systematic and economic reasons which would support the introduction of the principle in the digital environment, the matter does not feature among the priorities of the EU legislator in the current modernization of EU copyright rules, even if its effects would converge towards the policy targets set by the Digital Single Market Agenda. This does not mean, however, that the game is fully over. On the contrary, there are at least two potential interpretative paths that could provide a temporary judicial solution bridging the regulatory gap, and provide a systematic reordering that clarifies the degree of standardization introduced by the WCT, the role of the InfoSoc as *lex generalis*, the borders between Articles 3 and 4 InfoSoc, the good-service dichotomy, and the requirements to assess the functional equivalence of sale and license and of tangible and intangible supports.
- 105 The first solution, which may be implemented in the *Tom Kabinet* case, uses a contextual and teleological interpretation of Article 4 InfoSoc to overcome its strictness, based on the direct application of Treaty provisions. While it is true, in fact, that judge-made solutions based on articles of the Treaty are not allowed in areas where the EU legislator has already introduced measures directed to implement them, it is also true that the tangible-only limitation of Article 4(2) InfoSoc leaves the digital copyright market short of a measure necessary to balance copyright with competition, freedom of movement of goods, cultural policy objectives and fundamental rights such as property and privacy. Such a gap affords the CJEU room to interpret the legislative text in light of Treaty principles and rules, to the extent necessary to ensure their respect and the fulfillment of the Directive’s goals.
- 106 The InfoSoc text renders the exegetic operation more difficult than in *UsedSoft*, but not impossible. The teleological arguments advanced there by the Grand Chamber to support the functional equivalence of sale and license and tangible and intangible supports can be mirrored without modification in the *Tom Kabinet* case, thanks to the similarity of fact pattern and balancing objectives of exhaustion in the Software II and InfoSoc Directives. The more complex literal obstacle posed by Recital 28 InfoSoc may be overcome, instead, by two considerations. The first is that the WCT sets only a minimum threshold of protection, allowing contracting parties to set higher standards. This means that once the license commercializing the digital work is judged functionally equivalent to a sale and thus excluded from the scope of Article 3 InfoSoc, the need to “host” it under another right in order to keep on offering effective protection to rightholders may justify an extension of the right of distribution to cover digital works. The second

is that a literal interpretation of Article 4 InfoSoc may not guarantee that in the digital environment the Treaty provisions underlying the principle of exhaustion, from those which have already justified its introduction by the CJEU in the 1970s (freedom of circulation of goods and protection of competition in the internal market) to new ones such as those setting specific cultural policy objectives or requiring the respect of fundamental rights of the buyer of the digital support, would equally be respected and fulfilled. This consideration may allow the horizontal application of such Treaty provisions to interpret secondary EU law in a manner that is conducive to the realization of their objectives, as digital exhaustion would do in case of transfer of ownership over digital works. In line with the earliest CJEU's case law, nothing would prevent this interpretation, provided that the first sale of the work ensures an appropriate remuneration to the rightholder, so that the subject matter and essential incentivizing function of copyright is preserved. The reproduction necessary to finalize the transfer of the work from buyer to seller, provided that adequate technological measures ensure the deletion of the seller's copy upon alienation, could be either covered by Article 5(1)(b) InfoSoc or by the *FAPL* and *Ulmer* doctrine, which allows extending the scope of an exception or limitation when needed to ensure that they can still perform their functions.

**107** Should the Court opt for maintaining its conservatory stance on Article 4 InfoSoc, the second and least orthodox alternative would be a claim of invalidity of Article 4(2) InfoSoc under Article 51(2) CFREU, raised by national courts, for disproportionate restriction of the right to property (Article 17 CFREU), the right to respect of one's private life (Article 7 CFREU) and, in specific cases, the freedom to conduct a business (Article 16 CFREU) of the buyers of digital works, caused by the restriction of the scope of Article 4(2) InfoSoc to tangible copies only. The two-prong proportionality assessment, focusing on the appropriateness and necessity of the measure to achieve its objective – in this case that of the limitation of exhaustion to tangible copies in order to effectively protect copyright – would be based on the model drawn by precedents such as *Digital Rights Ireland*, and would test the appropriateness of the measure on the basis of the principle of equal treatment of comparable situations, and its necessity on the basis of the essential function and specific subject matter of copyright.