Digital Exhaustion: A Decade After the UsedSoft Case

by **Petr Kalenský** *

Abstract: Digital exhaustion has been a recurring theme in EU copyright law. While some may argue that the ruling of the Court of Justice of the European Union (CJEU) in the Tom Kabinet case definitively solved the surrounding questions, this paper takes the opposite stance. It offers a critical analysis of the CJEU's major decisions in a decade-long legal saga and examines the current status quo from the perspective of copyright exhaustion in the context of copyright law. The paper pleads for a balanced approach to digital exhaustion in the modern age as the current ruling of the CJEU has resulted in a clear shift of balance in favor of the rightsholders at the expense of users and other stakeholders in the market with copyright-protected works.

Keywords: Copyright Exhaustion, Digital Exhaustion, UsedSoft, Tom Kabinet

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A. Introduction

1 The story of digital exhaustion under EU copyright law begins more than ten years ago, on the 3rd of July 2012. On this day, the Court of Justice of the European Union ("**CJEU** ") delivered its highly anticipated ruling in the case C-128/11 *UsedSoft GmbH v Oracle International Corp.* ("***UsedSoft* case**"). In its ruling, the CJEU concludes that the distribution right and its exhaustion may apply to digital (intangible) copies of computer programs. At the time, it could seem as if the metaphorical nail had been hammered into the coffin of the traditional understanding of the distribution right and its exhaustion, as being exclusively bound to the realm of tangible objects.[1] In hindsight, it is obvious that while the

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1 Emma Linklater, 'UsedSoft and the Big Bang Theory: Is the e-Exhaustion Meteor about to Strike' (2014) 5 (1) Journal of Intellectual Property, Information Technology and

UsedSoft case and subsequently the decision in the case C-263/18 *Nederlands Uitgeversverbond and Groep Algemene Uitgevers* ("***Tom Kabinet* case**") certainly left a strong impression, their actual impact in accommodating the EU copyright law framework to the new, digital age and in balancing the rights of various stakeholders active in the digital markets with copyright-protected works, is limited.

2 To set the stage for further analysis, this paper begins by outlining and critically assessing the individual chapters of the digital exhaustion saga, as created by the CJEU in its decisions over the years. Through a critical assessment of the CJEU's jurisprudence, it is evident that the story of digital exhaustion is everything but straightforward; the story contains inconsistencies and flaws, and importantly, remains without a satisfying resolution even after over a decade since its beginning. Thereby, the initial parts of this paper outline the current regulatory status quo surrounding digital exhaustion under EU law. This analysis shows that the rationales driving copyright exhaustion in the traditional markets with copyright-protected works are no longer emphasized in the digital age. In its following parts, the paper asserts that while the technological environment has changed *significantly* since the inception of copyright exhaustion, a substantial part of the rationale underlying the principle of exhaustion may be viewed as highly relevant in the modern day and in some cases in fact, it may be as relevant as ever.

B. The Genesis of Digital Exhaustion in the Case Law of the CJEU

I. UsedSoft case as the Big Bang

3 The *UsedSoft* case has brought about the big bang setting off the more than a decade-long saga of discussions in the EU. The case concerned Oracle, a software development company, which supplied a databank software in 85% of cases by download through the internet.[2] Oracle granted the license through a licensing agreement and included the right to store a copy of the program permanently on a server and to allow a certain number of users to access it by downloading the software to their computers. The licensing fee entailed a lump sum payment and the license was granted as perpetual, non-exclusive, and non-transferable.[3] UsedSoft GmbH, a company focusing on the resale of "used" software licenses, has purchased such licenses from the customers of Oracle. The essential question referred for a preliminary ruling subsisted in assessing whether the supply by a download of a computer program, for an unlimited period, subject to the payment of a lump-sum fee, may be considered as an exercise of the distribution right and if so, whether the abovementioned supply exhausts the distribution right. To the surprise of many, the answer of the CJEU to both questions has been affirmative. The decision in the *UsedSoft* case may be considered revolutionary due to the striking attempt of the CJEU to assimilate the "traditional" and digital markets with computer programs and generally, its innovative, technologically neutral approach aimed at helping to create a more flexible copyright framework or, more precisely, adapting it to the rapid technological shift of the preceding decades. That said, the means by which the decision in the *UsedSoft* case paves the way for such flexibility is unfortunate and contains too many flaws and inconsistencies to provide a solid foundation for the adaptation of the distribution right and the exhaustion doctrine to the digital age.

1. Scope of the Relevant Rights

4 In the decision, the CJEU pays little attention to the assessment of which exclusive rights are actually involved in the supply of a computer program for permanent use by download. The CJEU skips this analysis and instead, begins its reasoning with where the distribution right ends, rather than where the applicable right begins. This is striking in hindsight, as the CJEU later demonstrated in the *Tom Kabinet* case that answering the latter question is no straightforward task. Rognstad notes that this failure to consider whether the distribution right even applies to the facts of the case might be, among other, caused by the formulation of questions posed to the CJEU by the German Court.[4] However, in the subsequent decision in the *Tom Kabinet* case, the reformulation of the questions posed by the Dutch court in order to first discuss the applicable right did not seem to form an issue for the CJEU.[5]

Electronic Commerce Law < https://www.jipitec.eu/issues/jipitec-5-1-2014/3903/jipitec_5_1_linklater.pdf>

2 Case C-128/11, *UsedSoft GmbH v Oracle International Corp.* (CJEU, 3 July 2012), para 21.

3 Ibid.

4 Ole-Andreas Rognstad, 'Legally Flawed but Politically Sound: Digital Exhaustion of Copyright in Europe after UsedSoft' (2014) 1 Oslo Law Review 1.

5 In the *Tom Kabinet* case, the questions of the Dutch court focused solely on considerations regarding the distribution right. The answers of the CJEU, however, focused on the communication to the public right.

5 From the wording of the applicable law, there are solid arguments for the conclusion that the distribution right and its exhaustion, irrespective of whether relating to computer programs or other protected works, are limited exclusively to tangible copies incorporating such works. The link between distribution right and requirement of tangibility of copies is rooted in the relevant provisions of the WIPO Copyright Treaty ("**WCT**") and the Agreed Statements concerning the WIPO Copyright Treaty ("**Agreed Statements**"). The WCT does not distinguish between the different types of protected works in the questions surrounding the distribution right. The Agreed Statements are further unambiguous in stating that the key term "copies" refers *"exclusively to fixed copies that can be put into circulation as tangible objects"*.[6] The conclusion of the CJEU that the tangibility requirement does not apply to the distribution of computer programs helps the equal treatment of offline and online secondary dispositions with copies of computer programs and thereby balancing the rights and interests of various stakeholders in the market with protected works. However, rather than explicitly stating that the CJEU opted for a teleological, technologically neutral approach rather than the strict adherence to the wording of the applicable law, the CJEU based its argumentation, to a large extent, on the construction of the *lex specialis* statutory mosaic. The *lex specialis* argument is unfortunate for at least two reasons. Firstly, it is inconsistent with the applicable law, as the WCT and the Agreed Statements equally apply to computer programs, since no distinction is made with regard to the distribution of copies of a computer programs and other works protected by copyright. Secondly, as shown in later cases, this line of argumentation may form a significant hurdle for the balanced application of the exhaustion doctrine in the digital age.

2. The Lex Specialis Argument: A Clunky Tool for Assimilation of Intangible Copies

6 In the *UsedSoft* case, the CJEU draws a divide between the *lex generalis*, the Directive 2001/29/EC, on the harmonisation of certain aspects of copyright and related rights in the information society ("**InfoSoc Directive**") and the *lex specialis,* the directive 2009/24/EC on the legal protection of computer programs ("**Software Directive**"). It is precisely this divide that, according to the CJEU, enables interpreting the term "copy" under the Software Directive as including computer programs not incorporated into a tangible object. The CJEU argues under paras 55 through 59 of the *UsedSoft* case that it does not appear from Article 4 (2) of the Software Directive that the distribution right under the Software Directive is limited to tangible copies and that Article 4 remains silent on this issue. The CJEU further emphasizes that the Software Directive aims to protect computer programs in any form, including those incorporated into hardware.[7] The CJEU's conclusion is that the European legislator clearly intends to assimilate both tangible and intangible copies into that provision of the Software Directive. However, it is precisely the silence of the Software Directive, which, from the literal reading of the relevant law speaks against the assimilation of intangible copies under the Software Directive, rather than for it. The Software Directive simply sets forth no provisions to override the conditions for the application of the distribution right and its exhaustion under the InfoSoc Directive and the WCT. The provisions of the Software Directive invoked by the CJEU, interpreted by the CJEU as superseding the relevant provisions of the WCT and the InfoSoc Directive, such as the mentioned Article 1(2) of the Software Directive do no such thing. Article 1(2) of the Software Directive states that "*Protection in accordance with this Directive shall apply to the expression in any form of a computer program*" (emphasis added) and should be interpreted as merely stating that any form of expression of a computer program, as a specific literary work, which may be represented through various means, such as the source code or the machine code of the computer program, is protected. This provision alone says close to nothing about the scope of the distribution right and its exhaustion. The CJEU's conclusion to the contrary strikes as inconsistent with other landmark cases dealing with the distribution right and the exhaustion thereof, such as the decisions in cases C-456/06 *Peek & Cloppenburg KG v Cassina SpA* or the case C-419/13 *Art & Allposters International BV v. Stichting Pictoright*. In these cases, the CJEU emphasizes the importance of the interpretation of EU law provisions in line with the obligations of the EU arising from international treaties, such as the WCT (and the Agreed Statements). Apart from that, the foundation for the application of the distribution right in the digital world based on the *lex specialis* divide is, as shown by the later development, a very shaky foundation indeed for a balanced application of the exhaustion doctrine in the digital age.

3. The UsedSoft Conditions

7 CJEU set forth the following conditions that need to be fulfilled for the distribution right to a copy

6 Agreed Statements concerning the WIPO Copyright Treaty adopted by the Diplomatic Conference on December 20, 1996, Agreed Statement concerning Articles 6 and 7.

7 *UsedSoft* case (n 2), para 57.

of a computer program to be exhausted under the Software Directive:

- a copy (tangible or intangible) of a computer program must be placed on the market in the European Union by the copyright holder or with its consent; through a
- sale (also including a perpetual license paid for by a lump-sum fee, by which the licensor gains a remuneration corresponding to the economic value of the copy); provided that
- the original acquirer makes his own copy unusable at the time of its resale.

8 Apart from the conditions stated above, the CJEU also supported its arguments by invoking the functional equivalence of online supply to the supply on a tangible medium in the present case.[8] While the concept of functional equivalence is a theme echoing in the subsequent case law of the CJEU, the theme is applied inconsistently in the subsequent case law of the CJEU, as shown below.

4. The "Sale" Criterion

9 One of the conditions allowing exhaustion to occur with respect to the distribution of computer programs is one of "sale" of the copy of the computer program. In simple terms, the underlying transaction must result in a transfer of ownership in that copy.[9] Oracle, quite understandably, argued that no actual sale took place, as Oracle made a copy of the program available for download free of charge, along with the conclusion of a license agreement, granting the user with non-exclusive and non-transferable user right for an unlimited period for that program. The CJEU disagreed. According to the CJEU, both of these steps in the context of the case render the transaction a sale.[10] The CJEU further refers to the argumentation that the term "sale" must be interpreted broadly, as "*encompassing all forms of product marketing characterised by the grant of a right to use a copy of a computer program, for an unlimited period, in return for 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 of which he is the proprietor*"[11] otherwise, the effectiveness of copyright exhaustion could be undermined.[12] According to the CJEU, it is precisely the existence of a transfer of ownership, which, according to the CJEU, converts an act of communication to the public under Article 3 of the InfoSoc Directive into an act of distribution under Article 4.[13]

5. The Obligation of the Original Acquirer to Make its Copy Unusable

10 In order for exhaustion to occur, the original acquirer must make its own copy unusable at the time of its resale, in order to avoid infringing the exclusive right of reproduction of a computer program belonging to its author, laid down in Article 4(1)(a) of the Software Directive.[14] While the purpose of this condition is clear and the condition itself is necessary in order to be able to treat digital and tangible copies equally, a counterargument presents itself in that making a copy unusable, after a new copy has been made is not decisive in the assessment of whether reproduction right has been infringed upon, as at one point in time, a new reproduction has been made and the other one had been created. The CJEU case law seems not to consider the reproduction right a vital part of the applicable rights equation, as most considerations revolve around the distribution and communication to the public rights. This approach varies significantly from the practice in the United States, *e.g.*, in the equally famous *ReDigi* case[15] and in the related appellate decision of the US Court of Appeals for the Second Circuit.[16]

6. Living in the Post-UsedSoft Universe

11 Although many saw the *UsedSoft* case as an open door to the adoption of digital exhaustion regarding protected works outside the scope of the Software Directive, the decision had quite the opposite effect. While the decision employs a teleological, technologically neutral approach, which could indeed be helpful in accommodating copyright law to the new age, it created a deep legislative divide

8 *UsedSoft* case (n 2), para 61.

9 ibid., para 42.

10 ibid., para 84.

11 ibid., para 49.

12 ibid.

13 ibid, para 52.

14 *UsedSoft* case (n 2), para 70.

15 Decision of United States District Court for the Southern District of New York of 30 March 2013, *Capitol Records, LLC v. ReDigi Inc*.

16 Decision of United States Court of Appeals for the Second Circuit of 12 December 2018, *Capitol Records, LLC v. ReDigi Inc*.

between the regimes of the distribution right under the Software Directive and under the InfoSoc Directive, effectively excluding digital exhaustion for works outside of the scope of protection of the Software Directive.

12 In the end, the application of the conclusions of the *UsedSoft* case in the following cases dealing with computer programs was not without issues. By way of example, in the subsequent proceedings before national courts in Germany. One can quite easily imagine the excitement among UsedSoft's legal counsels on the summer day the CJEU promulgated its decision in the case. One can also imagine the disappointment when after receiving the decision in the *UsedSoft* case, the case is not won in the proceedings back before the national courts. Revolutionary as it may be, the *UsedSoft* case laid down a set of conditions, the fulfilment of which proved to be rather difficult to support with sufficient evidence. In the national proceedings, the German courts held that to claim exhaustion as a limitation of the distribution right, UsedSoft bore the burden of proof regarding the fulfilment of conditions set forth by the *UsedSoft* case. In particular, UsedSoft failed to prove that Oracle had given consent to the download of a copy of the computer program against payment of a license fee, that Oracle had granted a right to a permanent use to the particular copies of programs, that the original acquirer made its own copies unusable at the moment of resale; and finally, that the new acquirer only uses the software within the boundaries of the terms of the original licensing terms. Consequently, UsedSoft agreed to a cease-and-desist undertaking, thus bringing the long-standing German UsedSoft saga to an end.[17]

13 The *UsedSoft* case seems to have raised more questions than answers by strengthening the split of the relevant legislation into two realms – the realm of "traditional" copyright works, embodied in the InfoSoc Directive and one of the computer programs, under the Software Directive. The CJEU pursued a commendable goal in adapting copyright law to the new technological reality, however, it chose unfortunate means for this undertaking. Ole-Andreas Rognstad describes the *UsedSoft* case as legally flawed but politically sound.[18] Sven Schonhofen notes, in an equally fitting manner, that "*facts plus policy = results = doctrine.*"[19] Interestingly enough, the CJEU did not get to tackle digital exhaustion directly on many more occasions after the *UsedSoft* case. However, there are several subsequent decisions of the CJEU, at least partially completing the fragmented picture of digital exhaustion under EU law.

II. Meeting of the Lex Specialis and the Lex Generalis

14 Case C-355/12 *Nintendo v. PC Box* ("***Nintendo* case**") is not, on its face, a digital exhaustion case, but a case concerning technological measures.[20] However, along with DRMs, the CJEU examined the nature of videogames as works protected by copyright. That is, whether videogames, as copyright-protected works, fall within the scope of the InfoSoc Directive only, or whether they belong under the umbrella of the Software Directive. According to the CJEU, video games constitute complex matter comprising not only a computer program but also graphic and sound elements, which, although encrypted in a computer language, have a unique creative value that cannot be reduced to such encryption.[21]

15 Insofar as the parts of a videogame (in this case, the graphic and sound elements) are part of its originality, they are protected by copyright together with the entire work, in the context of the system established by the InfoSoc Directive.[22] Containing creative elements, the value of which cannot be reduced to their encryption in a computer language, is not a robust distinguishing characteristic of video games when compared to computer programs in their pure form. Undoubtedly, video games usually contain a higher quality of these elements than "regular" computer programs. However, the bar for copyright protection under EU copyright law, as set, *i.e.*, by case C-5/08, *Infopaq International A/S v Danske Dagblades Forening*[23], is much lower. Furthermore, the CJEU expressly states in the case C-393/09 *Bezpečnostní softwarová asociace – Svaz softwarové ochrany v. Ministerstvo kultury* that a graphical interface can be protected by copyright as a work under the InfoSoc

17 'The End of the UsedSoft Case and Its Implications for "Used" Software Licences' (*Osborne Clarke*) <https://www.osborneclarke.com/insights/the-end-of-the-usedsoft-case-and-its-implications-for-used-software-licences> accessed 8 January 2023.

18 Rognstad (n 4).

19 Sven Schonhofen, 'Usedsoft and Its Aftermath: The Resale of Digital Content in the European Union' (2015) 16 Wake Forest Journal of Business and Intellectual Property Law 262, 277.

20 Case C-355/12, *Nintendo Co. Ltd, Nintendo of America Inc., Nintendo of Europe GmbH v. PC Box Srl, 9Net Srl* (CJEU, 23 January 2014).

21 *Nintendo* case (n 20), para 23.

22 *Nintendo* case (n 20), para 23.

23 Case C-5/08, *Infopaq International A/S v Danske Dagblades Forening* (CJEU, 16 July 2009).

Directive, if it is an own intellectual creation of an author.[24] At the time, at least two points could be distilled from the decision in the *Nintendo* case with regard to digital exhaustion.

16 The first point is that the CJEU insists on expanding the *lex specialis* argument elaborated in the *UsedSoft* case. The divide discussed above is strengthened, as according to the *Nintendo* case, the protection under the Software Directive is only available for "pure" computer programs (which will not be commonplace in practice). The opinion of AG Sharpston further supports this line of argumentation. In her view, the Software Directive takes precedence over the provisions of the InfoSoc Directive only where the protected material falls entirely within the scope of the former.[25] She further adds that: "*If Nintendo and Nintendo-licensed games were computer programs and no more, Directive 2009/24 would therefore apply, displacing Directive 2001/29. Indeed, if Nintendo applied separate technological measures to protect the computer programs and the other material, Directive 2009/24 could apply to the former, and Directive 2001/29 to the latter.*"[26]

17 What the above means in connection to the application of the distribution right and the exhaustion thereof to complex matters is still not settled.[27] Two approaches come to mind in the light of the *Nintendo* case, and neither is without flaws. One approach, which treats videogames as a subject matter wholly regulated by the InfoSoc Directive, granting exhaustion to distribution of tangible copies of videogames only. The second approach, treating different parts of the videogame differently, meaning that parts of the videogame falling under the protection of the InfoSoc Directive are assessed according to this directive and the parts of the videogame subsisting in "pure" computer programs would be assessed according to the Software Directive. But the latter granular approach becomes even more complicated after the brief assessment of complex matters as a concept in the *Tom Kabinet* case, where the CJEU took the position that for the subsumption of the subject-matter under the umbrella of the correct directive, it must be assessed whether the computer program plays merely an incidental role in the complex matter.[28] Therefore, if a computer program forms only an incidental element of the complex matter-work at hand, the application of the Software Directive is excluded. *A contrario*, it indicates that in case the computer program element of the complex matter at hand is not merely incidental, the Software Directive applies. Regardless of the result of the above application dilemma, one thing remains rather clear. The granular approach, which would assess each of the elements of complex matter with regard to exhaustion of the distribution right separately, *i.e.*, under the rules of different directives, is close to inconceivable from the view of practical reliance on copyright exhaustion and legal certainty, which forms one of the fundamental foundations of the exhaustion principle as a legal concept. If only certain parts (computer programs) of a highly complex, digital, copyright-protected matter, such as a modern-day videogame, would be deemed exhausted and other traditional protected works would not, it would make any reliance on exhaustion highly complicated, if not impossible. Such an approach would, therefore, go starkly against the purpose of exhaustion discussed in the latter parts of this paper.

III. VOB: A Confusing, yet Technologically Neutral Glimpse of Hope?

18 Although one could very well argue that the landscape surrounding digital exhaustion is complex already in the light of the case law discussed above, case C-174/15 *Vereniging Openbare Bibliotheken v Stichting Leenrecht* ("***VOB* case**") adds to this complexity.

19 In summary, the Dutch court sought the answers to the following two questions:

- whether e-book lending falls under the umbrella of the lending right under the directive 2006/115 on rental right and lending right and on certain rights related to copyright in the field of intellectual property; and
- whether it is in accordance with the EU law, if the laws of a member state introduce a condition on the application of the restriction on the lending right, subsisting in the fact that the copy of the work made available by the establishment must have been brought into circulation by an initial

24 Case C-393/09, *Bezpečnostní softwarová asociace – Svaz softwarové ochrany v Ministerstvo kultury* (CJEU, 22 December 2010), para 51.

25 *Nintendo* case (n 20), para 34.

26 ibid.

27 See, *e.g.*, Alina Trapova and Emanuele Fava, 'Aren't We All Exhausted Already? EU Copyright Exhaustion and Video Game Resales in the Games-as-a-Service Era' (2020) 3 Interactive Entertainment Law Review 77.

28 Case C-263/18, *Nederlands Uitgeversverbond, Groep Algemene Uitgevers v Tom Kabinet Internet BV, Tom Kabinet Holding BV, Tom Kabinet Uitgeverij BV*, (CJEU, 19 December 2019), para 59.

> sale or other transfer of ownership of that copy within the European Union by the rightsholder or with his consent within the meaning of Article 4(2) of Directive 2001/29.[29]

20 To the first of the questions, the CJEU held that there are no grounds for excluding e-books from the scope of the lending right. The CJEU avoids the issue of the link between tangibility and the term "copies" within the WCT by diligently distinguishing between the rental and lending rights. This allowed the CJEU to hold that neither the WCT nor the Agreed Statements proscribe the concept of "lending" from being interpreted as also including e-book lending.[30] While the answer to the first question is not particularly controversial, the same cannot be said about the answer to the second question posed to the CJEU, which may have surprised many inhabitants of the post-*UsedSoft* universe.

21 The CJEU had answered that nothing in the EU law precludes the introduction of the above condition, subsisting in nothing less than digital exhaustion, under the national law of Member States.[31] This conclusion may, at first glance, be seen as good news for digital exhaustion under the InfoSoc Directive, since the CJEU essentially concludes that the Member States may legislate for digital exhaustion regarding e-books – otherwise, the existence of a condition in question would be nonsensical. While the decision itself and the opinion of the AG contains many arguments oriented at technological neutrality, which were subsequently not considered in the following *Tom Kabinet* case, the decision in the *VOB* case should not be seen as a "pro-digital exhaustion" decision for the reasons discussed below.

22 The critical part of the reasoning behind the *Tom Kabinet* case may be seen in para 85 of the opinion of AG Szpunar, in which the AG states that in case that lending or rental rights are acquired with the consent of the author, it may be assumed that the author's interests are sufficiently protected and on the contrary, where there is a reliance on the derogation from an exclusive right, such interests of the rightsholder may be in jeopardy.[32] The CJEU holds that such a condition for the applicability of the derogation from an exclusive right is capable of reducing those risks.[33] Therefore, the CJEU's analysis revolves not around the usual purposes ascribed to copyright exhaustion, such as the limitation of control of the rightsholder over secondary transactions (after having the opportunity to receive adequate remuneration). The decision further does not at all assess whether digital exhaustion is even conceivable under the explicitly referred to InfoSoc Directive. The reasoning of the *VOB* case revolves almost exclusively around the question of whether introducing the condition provides the rightsholders with more protection. In simpler terms, the CJEU concludes that adding a step to the application of a limitation (and therefore, to a use of a protected work without the authorization of the relevant rightsholder) strengthens the position of the rightsholder.

23 For this reason, the *VOB case* should not primarily be read as a pro-digital exhaustion decision, but a pro-rightsholder decision. The equation, as the CJEU presents it, seems to be merely:

> *more complicated access to a limitation = more rightsholder protection = in accordance with the EU law.*

24 Considering the amount of controversy surrounding digital exhaustion, the fact that not a single word of the argumentation in the *VOB* case was devoted to considerations concerning the relationship between digital exhaustion and Article 4 (2) of the InfoSoc Directive, is puzzling. With the knowledge of the following decision in the *Tom Kabinet* case, Sganga calls the co-existence of the *VOB* case and the *Tom Kabinet* case a systematic mystery.[34] It is easy to agree with this assessment.

IV. Tom Kabinet: A Door Closed Shut (?)

25 If the wait for the outcome of the *UsedSoft* case was full of suspense, the wait for the *Tom Kabinet* case was a cliffhanger for all of those hoping for, at the very least, an interim ending of the EU digital exhaustion saga. By the *Tom Kabinet* case, the existing judicial and legislative patchwork could be made whole in one way or another. Instead, the CJEU presented yet another set of steps in what Mezei calls an "*an exhausting dance exercise, in which the court takes a few*

29 Case C-174/15, *Vereniging Openbare Bibliotheken v Stichting Leenrecht* (CJEU, 10 November 2016), para 65.

30 ibid., para 39.

31 ibid., para 65.

32 *VOB* case (n 29), opinion of AG Szpunar para 85.

33 *VOB* case (n 29), para 64.

34 Caterina Sganga, 'Is the Digital Exhaustion Debate Really Exhausted? Some Afterthoughts on the Grand Chamber Decision in Tom Kabinet (C-263/18)' (*Kluwer Copyright Blog*, 19 May 2020) <http://copyrightblog.kluweriplaw.com/2020/05/19/is-the-digital-exhaustion-debate-really-exhausted-some-afterthoughts-on-the-grand-chamber-decision-in-tom-kabinet-c-263-18/> accessed 7 January 2023.

steps right and a few steps left".[35] The facts of the case, along with the submitted preliminary questions seemed to form a perfect storm for the resolution of lingering questions surrounding digital exhaustion in the regime of the InfoSoc Directive. Likely, the Dutch Court shared this view, judging from the wording of preliminary questions posed, focusing on the distribution right and its exhaustion in the digital environment under the InfoSoc Directive.

26 The Dutch court asked, among other, whether, in the opinion of CJEU:

- the supply of an e-book by download for use for an unlimited period of time at a price constitutes an act of distribution within the meaning of article 4 (1) of the InfoSoc Directive; and
- whether such an act can trigger the exhaustion of the distribution right.

27 Possibly spoiling suspense for the reader, this paper begins the analysis with the outcome of the case. The CJEU concluded that the supply of an e-book by download for use for a period of time at a price constitutes an exercise of the right of communication to the public rather than the exercise of the distribution right. Although the CJEU mentions the *UsedSoft* case explicitly, the CJEU does not, in fact, follow the same line of interpretation of the relevant directive provisions, as shown below.

1. The Wording of the Law and the Historical Intent

28 One of the stark contrasts between the interpretative approach of the CJEU in the *UsedSoft* case and the *Tom Kabinet* case is that the latter decision does not pose the question of whether the assessed transaction involves a transfer of ownership within the meaning of the *UsedSoft* case. This is surprising, as it was precisely the deemed existence of a transfer of ownership, in a case including a licensing agreement, which changed, in the view of the CJEU, an act of communication to the public into an act of distribution.[36] Instead, the CJEU focuses on the aim of the InfoSoc Directive stated, in the recital (15) thereof, subsisting in the implementation of WCT obligations. As described above, the minimum "floor" of substantive protection set by the WCT and the Agreed Statements is unambiguous in creating a link between the exclusive right of distribution, its exhaustion and the tangibility requirement. The Court follows this newly found emphasis with the analysis of the explanatory memorandum to the InfoSoc Directive, which, according to the CJEU, makes it clear that "*any communication to the public of a work, other than the distribution of physical copies of the work, should be covered not by the concept of distribution to the public.*"[37] CJEU invokes the recitals of the InfoSoc Directive and identifies two objectives of the InfoSoc Directive contained therein. Firstly, creating a general and flexible framework at the EU level to foster the development of the information society and for the copyright to respond to technological development brought novel ways of exploiting protected works.

29 Nevertheless, one must not forget other goals, such as the goal contained in the recital (31) of the InfoSoc Directive, which aims to safeguard a fair balance of rights interests between the different categories of rightsholders, as well as between the different categories of rightsholders and users. How the CJEU reconciles these two competing objectives paints the stark contrast between the *UsedSoft* case and the *Tom Kabinet* case. These goals and their reconciliation are in no way specific to EU copyright law, as the provisions of the recitals reflect the purposes of copyright law and the underlying balancing aspect of copyright law as such.

30 In the *UsedSoft* case, while keeping in mind the latter objective in the form of balancing and the rightsholders being able to obtain adequate remuneration, the CJEU takes a very flexible, functionally oriented approach, going over and possibly even against the wording of the applicable law in order to achieve a technologically neutral solution - assessing that the transaction at hand constituted a transfer of ownership when formally, the transaction in question was a grant of a license, rather than a sale. Accordingly, the CJEU holds that the right of distribution and its exhaustion applies.

31 Conversely, in the *Tom Kabinet* case, the CJEU sticks to the literal interpretation of the law along with arguments subsisting in the legislator's historical intent, emphasizing almost exclusively the objective of the high level of protection of the rightsholder. In order to achieve this goal, the CJEU states that the right of communication to the public must be understood broadly as encompassing all communication to the public not present at the place

35 Péter Mezei, 'The Doctrine of Exhaustion in Limbo - Critical Remarks on the CJEU's Tom Kabinet Ruling' (2020) 148 ZESZYTY NAUKOWE UNIWERSYTETU JAGIELLONSKIEGO PRACE Z PRAWA WLASNOSCI INTELEKTUALNEJ, 130. "plainCitation":"Péter Mezei, 'The Doctrine of Exhaustion in Limbo - Critical Remarks on the CJEU's Tom Kabinet Ruling' (Social Science Research Network 2020

36 *Tom Kabinet* case (n 28), para 52.

37 ibid., para 45.

where the communication originates.[38] While the concerns regarding the compliance of the *UsedSoft* case with the wording of the law were shared above, the adoption of a polar opposite interpretative approach in the form of the conclusions of the *Tom Kabinet* case creates even more uncertainty in an area of law that is far from clear. Firstly, the strong (and after the decisions in the *UsedSoft* and *VOB* cases, rather surprising) insistence on the historical intent does not exactly facilitate the mentioned goal of adapting the copyright law framework to the current digital reality and striking a balance between the various groups of stakeholders in the market with protected works. Each of the documents invoked by the CJEU far predates a point in time, where the business model of *Tom Kabinet* or a similar business models would even be conceivable, and the digital market was a concept still in its beginnings. As such, it formed a more or less niche alternative to the distribution of tangible carriers to watch out for in the future.

32 Secondly, while it is clear that the high level of protection of rightsholders is one of the leading objectives of copyright law within the EU, it is not the only objective shaping the outline of EU copyright law and it must be balanced with the rights and interests of other stakeholders in the market with protected works.

2. Scope of the Directives

33 Aware of the existing ambiguity surrounding the scope of the InfoSoc Directive and the Software Directive, the CJEU reiterates the *lex specialis* argument contained in the *UsedSoft* case in stating that the regime of the Software Directive cannot be applied to a case concerning e-books. Dealing with considering e-books as a complex matter, the CJEU mentions the incidental role of computer programs in e-books. Let us recall the CJEU invoking the Article 1 of the Software Directive in the *UsedSoft* case and its broad definition of the protected subject-matter under the directive. The Software Directive states that computer programs, including the preparatory materials, are to be protected as literary works, whereas the protection includes the expression of a computer program in any form. The only criterion for protection in Article 1 (3) of the Software Directive being that the work is original, in the sense that it is an own intellectual creation of the author. Paragraph 3 then states expressly that no other criteria shall be applied to determine eligibility for protection. According to the Software Directive, the incidental or non-incidental role of a computer program makes no difference in whether or not the computer program is eligible for protection under that directive. Furthermore, if the argumentation of AG Sharpston in the *Nintendo* case was to be followed in the *Tom Kabinet* case, the CJEU would have to deal with two parts of the equation – the elements falling under the InfoSoc Directive and the computer program elements falling under the Software Directive.

3. Equivalence and equal treatment

34 CJEU further analyses the transaction at hand through the prism of functional and economic equivalence. These two concepts form a leading argument in the CJEU case law for the introduction of digital exhaustion regarding computer programs under the Software Directive, but also a leading argument against it concerning works protected under the InfoSoc Directive. The approach of the AG and the CJEU in the *Tom Kabinet* case differs fundamentally. The CJEU and the AG mention functional equivalence, however, the reasoning of the case revolves around economic equivalence. While seemingly taking into consideration the *UsedSoft* case line of reasoning, the approach of the CJEU is different. Should the functional equivalent approach (*UsedSoft* case) be applied in the *Tom Kabinet* case, the CJEU would first, as it did in the *UsedSoft* case, consider, prior to the application of the right of communication to the public pursuant to Article 3 of the InfoSoc Directive, whether the transaction at hand constitutes or is equivalent to a sale.[39] The question is whether it should have done so in the light of its own decision in the *UsedSoft* case, as in that case, the CJEU held that it was exactly that circumstance that triggered the conversion of an act of communication to the public to the one of distribution[40], implying, that were no sale or other transfer of ownership involved, the transaction could be seen as communication to the public. If there is truly the option of such a conversion occurring under the applicable laws, the analysis of whether it had, in fact, occurred should immediately follow the conclusion that there is an act of communication to the public. While in the *UsedSoft* case, the CJEU omits the first part of the applicable rights analysis, *i.e.*, whether distribution or communication to the public right applies, merely stating the occurrence of the conversion described above, in the *Tom Kabinet* case, the CJEU omits the step lying in assessing the nature of the transaction at hand and whether it includes a transfer of ownership or its equivalent. If the transaction was equal to a sale by the standards set forth by the CJEU in the *UsedSoft* case, then the

38 *Tom Kabinet* case (n 28), para 49.

39 *UsedSoft* case (n 2), para 52.

40 ibid.

objectives of the principle of exhaustion were to be examined along with whether the exhaustion is able to fulfill its purpose in the digital transaction at hand. The difference is further even starker in comparison to the *VOB* case, which, although not explicitly mentioning functional equivalence, sets forth functional equivalence in all but name.

35 CJEU distinguishes the facts in the *Tom Kabinet* case from the facts in the *UsedSoft* case through the prism of equivalence between the supply by a download for permanent use and the supply through the distribution of a tangible carrier. In the first place, the CJEU agrees with the argument of the AG, that dematerialised digital copies do not deteriorate with use and therefore, form perfect substitutes to new copies. Further, according to the CJEU, this characteristic of second-hand e-books is further strengthened by the fact that exchanging such copies requires neither additional effort nor additional cost, and therefore the impact of the secondary markets on the interests of the rightsholders would be stronger. As further discussed below, these aspects are merely simplified fragments of the mosaic forming the assessment of functional and economic equivalence.

4. An "Exhaustion-like" Foot in the Door?

36 The last point regarding the *Tom Kabinet* case I would like to draw the reader's attention to is the following. Above, the decision has been described in the title as "*a door closed shut*". However, is it possible that the CJEU left a crack open in this door leading to digital exhaustion in the regime of the InfoSoc Directive? After concluding that the supply of an e-book by a download constitutes an act of communication to the public, the CJEU states in point 69, that: *(...) having regard to the fact, noted in paragraph 65 of the present judgment, that any interested person can become a member of the reading club, and to the fact that there is no technical measure on that club's platform ensuring that (i) only one copy of a work may be downloaded in the period during which the user of a work actually has access to the work and (ii) after that period has expired, the downloaded copy can no longer be used by that user (see (...) Vereniging Openbare Bibliotheken (...)), it must be concluded that the number of persons who may have access, at the same time or in succession, to the same work via that platform is substantial.(emphasis added)*"[41]

37 The paragraph above comprises two aspects – a reproduction right aspect and a "new public" aspect. In the first part, the CJEU reaffirms its position promulgated in the *UsedSoft* case, that to not breach the reproduction right, only one copy must exist and be "usable" so that the copy is transferred rather than multiplied. Therefore, the mere fact that at least in the time of copying, two reproductions exist, does not itself form a breach of the reproduction right in such cases. The second part of the paragraph leaves more room for interpretation. As ironic as the above reference to the *VOB* case might be in the light of the mutual inconsistency of the decisions in the *VOB* case and the *Tom Kabinet* case, it suggests that were the abovementioned requirements fulfilled, there would have been no new public within the meaning of the *Svensson*[42] case and others. If that is the case, there could be room for an exhaustion-like rule present in the CJEU's understanding of the right of communication to the public and its limits, taking a deviationist stance to the application of rules regarding digital exhaustion. Such a solution could form more of a middle-ground solution in the balancing of rights of various stakeholders when compared to the solution lying in abolishing exhaustion of rights as a principle with regard to copyright works outside of the scope of the Software Directive without any particular policy considerations supporting such a step. Nevertheless, such a solution would not come without its own set of problems. From a systemic perspective, this solution blurs the already blurry lines between individual exclusive rights in the digital world. Furthermore, the room for this solution seems to be significantly limited by the subsequent case law of the CJEU, expanding the scope of the "new public" in the CJEU case law such as *Renckhoff*[43] or the *VG Bild-Kunst*[44] case. This case law further sheds light on the newly found non-willingness shown in the *Tom Kabinet* case, as opposed to the *UsedSoft* case, to interpret certain acts in the digital domain as an exercise of the distribution right and instead, to subsume all such acts under the wide umbrella of the ever-so-expanding right of communication to the public. As aptly noted by Oprysk, the Article 3 (3) of the InfoSoc Directive has continually been used by the CJEU as an argument to subsume a certain act under the communication to the public, as a failure to do so would lead to the exhaustion of the right and even in cases, in which the dissemination was of an independent, not of a secondary nature.[45] This

41 *Tom Kabinet* case (n 28), para 69.

42 Case C-466/12, *Nils Svensson, Sten Sjögren, Madelaine Sahlman, Pia Gadd v Retriever Sverige AB* (CJEU, 13 February 2014).

43 Case C-161/17, *Land Nordrhein-Westfalen v Dirk Renckhoff* (CJEU, 7 August 2018).

44 Case C-392/19, *VG Bild-Kunst v Stiftung Preußischer Kulturbesitz* (CJEU, 9 March 2021).

45 Liliia Oprysk, 'How Much "New" Public Is Too Much? The CJEU's VG Bild-Kunst Judgment and Non-Exhaustive Control Over a Work's Consumption' (2022) 53 IIC - International Review of Intellectual Property and Competition Law 1323,

itself is misleading, as only in the case of transactions of secondary nature, exhaustion should even come into question.[46]

V. A Dream of Balanced Copyright Exhaustion in the Digital Age

1. Relevance of Copyright Exhaustion Foundations in the Digital Age

38 In light of the above analysis, a solid foundation for copyright exhaustion in the digital age under EU copyright law may seem like nothing more than a dream. The following part of this paper asserts that copyright exhaustion, albeit in form balanced to suit the needs of the digital age better, is not only helpful to attain the balance among various stakeholders in copyright law – it is necessary. There are fundamental reasons why the rationale behind exhaustion preserves its relevance in the digital age and in some cases, its relevance may be even more vital. These reasons, lying in the very purpose of copyright exhaustion, do not distinguish between tangible and digital modes of distribution and apply indiscriminately. These fundamental reasons include, among others, the balancing effect of exhaustion (including reward theory arguments)[47], the competition and innovation-enhancing effects of exhaustion, and the function of exhaustion as a safeguard of the interests of the public at large. Furthermore, policy goals such as applying copyright law in a technologically neutral manner further favour preserving the exhaustion doctrine in one way or another.

2. Balance as the Foundation of Copyright Exhaustion

39 While the balance among different groups of stakeholders may be the ideal for which copyright law strives, achieving it is no simple task. What the term "balance" means is further subject to policy considerations, and it is therefore hard to pinpoint any objective measures or benchmarks. Balancing the rights of stakeholders in the market with copyright-protected works forms one of the inherent rationales behind the very introduction of exhaustion into copyright law, as it delimits the scope of control provided by the exclusive distribution right and reconciles it with the ownership rights of the lawful acquirer of a copy of a protected work.[48] However, it seems that the balancing aspect continuously disappears from the considerations revolving around digital exhaustion and the general secondary dissemination of protected works.[49]

40 Targosz presents four traditional explanations of the purpose of exhaustion, which are mutually non-exclusive.[50]

41 These are the:

- reconciliation of property rights in the "copy", as a specific object and the rights to the copyright-protected work itself;
- safeguarding that the rightsholder has the opportunity to recover adequate remuneration when putting the copy on the market for the first time;
- legal certainty; and
- facilitation of circulation of goods on the market (e.g. by creating secondary markets).

42 In the reasoning of the *Tom Kabinet* case, the CJEU only explicitly considers the function of exhaustion as a safeguard for the rightsholder to recover adequate remuneration. However, as seen from the explanations set forth by Targosz, this is not the only perspective through which copyright exhaustion can and should be viewed. There are doubts that this explanation alone is sufficient for concluding preserving or excluding exhaustion[51] in the digital domain, as it is more of a defence of exhaustion, rather than its sole justification in copyright law.[52]

43 Secondly, the CJEU makes no sophisticated economic

1328.

46 Ibid.

47 Péter Mezei and Caterina Sganga, 'The Need for a More Balanced Policy Approach for Digital Exhaustion – A Critical Review of the Tom Kabinet and ReDigi Judgments' (15 June 2023) <https://papers.ssrn.com/abstract=4480825> accessed 27 June 2023.

48 Péter Mezei, *Copyright Exhaustion: Law and Policy in the United States and the European Union* (Second edition, Cambridge University Press 2022) 7.

49 Oprysk (n 45) 1339.

50 Tomasz Targosz, 'Exhaustion in Digital Products and the "Accidental" Impact on the Balance of Interests in Copyright Law'in Bently L, Sutherhansen U and Torremans P (eds.) *Global Copyright: Three Hundred Years since the Statute of Anne, from 1709 to Cyberspace* (Edward Elgar 2010) 341.

51 ibid, 344.

52 ibid.

analysis regarding the factors that would enable the rightsholder to obtain adequate remuneration, but only briefly references the rather apparent concerns of the rightsholders.[53] The CJEU does not deeply inquire into the impact of the existence of secondary markets with protected works on the rightsholder or other subjects in the markets with protected works. The existence of secondary markets does not only influence these groups of stakeholders, it further influences the amount of innovation in the market. There are almost countless questions that could be asked in this regard, such as, whether one resold copy of an e-book truly means one less sale for the distributor, rather than a user who would otherwise not purchase the e-book at all for the (higher) price set on the primary market, or, in the worse scenario, would opt for obtaining a digital copy illegally. Whether the existence of a secondary market may motivate the user to acquire "new" copies due to the fact that with the option of resale, the investment into such copies no longer necessarily presents sunk costs, and in case the customer no longer desires to possess such a copy, it may recover part of the costs by its resale.[54] The CJEU does not deal with any of these analyses, and with so many different variables, the CJEU reaches its conclusion with striking efficacy.[55] The argumentation provided by the CJEU in the *Tom Kabinet* case heavily focuses the protection of the rightsholder, with no real emphasis on the existence and the activities of other stakeholders in the market. To be clear, this should by no means be understood as stating that the extension of copyright exhaustion into the digital domain is not able, to an extent, negatively affect the interests of the rightsholder in obtaining remuneration or is able to deal with all of the concerns above. However, it is a mistake to deem exhaustion an obsolete doctrine with no place in copyright law of the current day. The question of how the rightsholder is affected (and whether it is proportionate) by the introduction of digital exhaustion should clearly be asked and examined. However, the answer to this question cannot be provided merely on the basis of a simplifying statements such as that digital copies do not deteriorate with use and that exchanging such copies requires no additional effort nor additional costs, as the considerations are *much* more complex.

44 While the *leitmotif* in providing strong protection to rightsholders in the *Tom Kabinet* case seems to be to facilitate innovation[56], the effect may be precisely the opposite. Lawrence Lessig describes the inherent war between copyright and technology, lying in the fact that new technological means restrict the amount of control the rightsholder may exercise over the relevant copyright works.[57] According to Elkin-Koren and Salzberger, following up on Lessig's theory, the copyright setting must be differentiated from the setting of ownership rights, as "*...in real property the legal protection is necessary in order to create incentives to produce and protect the right of possession. In intellectual property law, in contrast, there is a need only to generate sufficient incentives to create. Thus, with regards to intellectual property there is a need only for less than perfect control, while in real property the law must provide perfect control to the owner.*"[58] This consideration should be key in assessing whether the rightsholder is able to obtain *adequate* remuneration. In the light of the *Tom Kabinet* case and case law expanding the term "*new public*", it seems that the focus of the CJEU lies in granting control to the rightsholder and the rightsholder being able to recover as high remuneration as possible, rather than considering whether such remuneration is just enough to provide a sufficient incentive to create further and to spur innovation while preserving the balance with the interests of the public-at-large. There are also other considerations to be made in assessing whether the remuneration granted is adequate and whether in the specific case, the rightsholder interest lying in remuneration is not outweighed by the negative externalities of granting the rightsholder a wide scope of control, which may encompass the stifling of competition and innovation and thereby, the grant of extensive control disproportionately harms the public-at-large.

45 In the end, if the goal of copyright law is to maximize

53 According to the decision in the *Tom Kabinet* case, electronic books form perfect substitutes to their traditional - tangible counterparts, and exchanging digital copies requires neither additional effort nor costs, therefore a secondary market therewith would likely affect the (monetary) interests of the rightsholder much more than in the case of secondary markets with traditional books.

54 Targosz (n 50) 338.

55 Liliia Oprysk, 'Secondary Communication under the EU Copyright Acquis after Tom Kabinet: Between Exhaustion and Securing Work's Exploitation' (2020) 11 JIPITEC <https://www.jipitec.eu/issues/jipitec-11-2-2020/5095> accessed on 5 June 2023.

56 The CJEU invokes the recital (4) of the InfoSoc Directive, setting forth that „*A harmonised legal framework on copyright and related rights, through increased legal certainty and while providing for a high level of protection of intellectual property, will foster substantial investment in creativity and innovation, including network infrastructure, and lead in turn to growth and increased competitiveness*", while focusing merely on the high level of protection element, however, that is not the only variable in the equation.

57 Lawrence Lessig, '*Code:Version 2.0*' (BasicBooks 2006) 172.

58 Elkin-Koren N and Salzberger EM, 'The Law and Economics of Intellectual Property in the Digital Age: The Limits of Analysis' (Routledge Taylor & Francis Group 2015) 93.

the welfare of the public-at-large and not only to maximize the control and profit generating capabilities of the rightsholders, balancing is necessary. Such balancing does not only take the form of limitations on the exclusive rights in scope and time, but it also comes in the form of the introduction of principles such as copyright exhaustion. While the grant of property-like control to the rightsholders may give an incentive to create, it, at the same time, hinders the creation process, as new creations rely on the previous ones.[59] In the mentioned balancing, one must not forget that not only were the costs of (legal or illegal) copying significantly diminished in the digital age[60], the means and extent to which the rightsholders may exercise control increased significantly, through the introduction of elements such as DRMs or private ordering into the equation. These means are not to be overlooked, as these allow the rightsholders not only to control the distribution of the protected works, but also the very consumption of their contents by their users, even after their authorized placement on the market.

3. The Competition and Innovation Enhancing Side of Exhaustion

46 It would be an error to consider copyright exhaustion solely in the vacuum of copyright law, especially within the EU legislative framework. Copyright exhaustion allows for the very existence of secondary markets and facilitates the circulation of goods.[61] After all, the exhaustion principle, as introduced into EU law by the *Deutsche Grammophon case*[62], played an essential role in the functioning of the EU single market and helps to achieve the first of the four fundamental freedoms in the single market, the free movement of goods. Targosz notes that the functions of exhaustion may not be determined only by using copyright law concepts and further observes that driven by the *effet utile* reasoning, the CJEU has shaped exhaustion in an autonomous way, as a tool ensuring the effective circulation of goods and when needed, acknowledging the exhaustion of other rights other than purely material right of distribution.[63] After all, applying a rule strikingly similar to exhaustion may be observed in applying the "new public" requirement, which by no means arises from the wording of article 3 of the InfoSoc Directive.

47 Some of the positive effects of secondary markets lying in mitigating certain types of anti-competitive behaviour have been well described. Firstly, secondary markets help prevent or mitigate the vendor lock-in effect. By creating a secondary source of acquiring relevant copyright works, the public no longer has to rely only on the primary channels. A secondary market may further spur innovation through the rightsholders having to compete with secondary markets on top of the competition in the primary market. Even if this increase in competition results in lower profit, the level of innovation may be higher, as some producers may try to entice customers to continue paying premium prices by innovating and releasing new or upgraded products.[64] A policy facilitating innovation should further not only include producer-level innovation, but the innovation on other levels as well, in order to promote the welfare of the public-at-large.[65] Finally, secondary markets considerably influence price discrimination strategies. The existence of secondary markets has the potential to limit the negative effects of excessive price discrimination, as it offers new means of acquisition of the relevant work, presumably for a more favorable price. On the other hand, it does not make price discrimination impossible and in some aspects, might even help the rightsholders in the setting of their commercial strategy. For example, it will allow the customers to "sort themselves out"[66] and it might be rational to presume, that the customers willing to pay premium prices will, most likely, be concentrated in the most part on the primary market.

4. Exhaustion as a Safeguard of Public Interest in Copyright law

48 Exhaustion may also be seen as one of the inherent checks and balances of copyright, ensuring that copyright law strikes a balance between the interests of the rightsholders and the interests of the public-

59 ibid., 49.

60 This circumstance is often stressed as a significant detriment to the rightsholders, as the digital means of distribution facilitate illegal copying as well. However, it is vital to keep in mind that the costs of legal distribution by the rightsholders were significantly diminished as well.

61 Targosz (n 50) 342.

62 Case 78-70, *Deutsche Grammophon Gesellschaft GmbH v Metro-SB-Großmärkte GmbH & Co. KG* (ECJ, 8 June 1971).

63 Targosz (n 50) 342.

64 Ariel Katz, 'The Economic Rationale for Exhaustion: Distribution and Post-Sale Restraints' in Caliboli I and Lee E (eds.) *Research Handbook on Intellectual Property Exhaustion and Parallel Imports* (Edward Elgar Publishing 2016) 26.

65 ibid., 28.

66 ibid., 26.

at-large.[67] By effectively deleting exhaustion off the map in the digital domain under the InfoSoc Directive, the CJEU shifts this balance substantially in favour of the rightsholders, as the amount of control they may exercise over the subsequent fate of protected works in the digital domain starkly increases in comparison to the amount of control granted to tangible copies of protected works. While the CJEU argues with historical intent for the purposes of keeping exhaustion out of the digital domain for protected works in the regime of the InfoSoc Directive, the question is whether such a shift in balance was indeed intended to be brought about by the "mere" change of the technological means of distribution and dissemination of protected works. A more nuanced approach is necessary and as many issues the decision in the *UsedSoft* case had from the point of the wording of the relevant law, it seems to do a better job in providing for such a nuanced approach, taking into considerations the circumstances of the new technological reality.

49 The role of exhaustion with regard to the public-at-large may further be observed in the context of regulation such as the directive 2019/770 on certain aspects concerning contracts for the supply of digital content and digital services ("**Digital Content Directive**"). The Digital Content Directive explicitly states that it is without prejudice to copyright laws, including the InfoSoc Directive. Despite this relatively unambiguous statement, there seems to be a number of friction points between the Digital Content Directive and EU copyright laws. Spindler, Oprysk and Sein primarily point to the possible friction with the objective conformity test contain in Article 8 (1) of the Digital Content Directive, lying in the requirement of reasonable expectations of the consumer.[68] For example, as Oprysk and Sein note, when faced with a "*Buy now*" button with regard to an e-book, a reasonable expectation of consumers may exist to acquire (buy) content, which they can also dispose of and permanently transfer their access to another person.[69] Further in the case of videogames, the digital copies are often of the same or higher price as their counterparts on tangible carriers. Digital copies are not sold and what more, are usually bound to a user-account, which may not be transferred to another person by virtue of the EULA or an alike private ordering instrument. The absence of exhaustion or an exhaustion-like rule clearly puts the users "buying" the digital versions of videogames in a disadvantageous position and strengthens the position of the rightsholder, on the basis of nothing more than the technology the customer decided to use. Last but not least, the existence of secondary markets, brought about by the exhaustion principle, further serves the public-at-large by helping prevent the disappearance of certain works due to the discontinuation of their distribution on the primary market.[70]

5. Functional and economic equivalence

50 The CJEU invokes the concepts of functional and economic equivalence, along with the reference to the primary law principle of equal treatment in both of the landmark digital exhaustion cases discussed above. In the present author's view, neither of these forms an *en bloc* normative barrier for introducing copyright exhaustion in the digital environment for the works protected under the InfoSoc Directive. The obvious difference between the *UsedSoft* case and the *Tom Kabinet* case is that while the CJEU found the sale of a computer program on a tangible carrier and the sale of a program by downloading from the internet are similar, whereas, in the case of distribution of tangible books and e-books, the court reached the opposite conclusion But what are the criteria for such equivalence? In the *UsedSoft* case, the CJEU considers the functional equivalence of the online transmission method and the supply on a material medium.[71] In the *VOB* case, the CJEU is not as explicit, but also invokes the functional equivalence of digital lending and the lending of printed works, in line with the principle of equal treatment.[72] Finally, in the *Tom Kabinet* case, CJEU mentions equivalence from an economic and functional point of view.[73]

51 One of the most frequent arguments against digital exhaustion lies in the assertion that an electronic copy is a perfect substitute for a new copy, as it does not deteriorate with use and thereby a parallel second-hand market would be likely to affect the interests of the copyright holders in obtaining an appropriate reward for their works much more than the market for second-hand tangible object. This is a gross oversimplification. As Geiregat notes, the argument arises from the erroneous premise that the rightsholders have an exclusive right to

67 Targosz (n 50) 343.

68 Gerald Spindler, 'Digital Content Directive And Copyright-Related Aspects' (2021) 12 JIPITEC 111.

69 Liliia Oprysk and Karin Sein, 'Limitations in End-User Licensing Agreements: Is There a Lack of Conformity Under the New Digital Content Directive?' (2020) 51 IIC - International Review of Intellectual Property and Competition Law 594, 619 .

70 Katz (n 64) 27.

71 *UsedSoft* case (n 2), para 61.

72 *VOB* case (n 29), para 53.

73 *Tom Kabinet* case (n 28), para 58.

market new or unused copies.[74] Consequently, it is also erroneous to consider secondary markets as involving only transactions with used or to some extent barely functional copies of protected works. Secondary markets frequently also contain new and unused copies of protected works.[75] It further seems fair to assert that a book that has been read ten times does not necessarily grant its user a lower amount of enjoyment of the protected subject matter than a new book. And from the perspective of copyright law, after all, it is the subject matter that copyright protects, not the deteriorating physical condition of pages in a book. It is further misleading to say that digital copies do not deteriorate. They do, just differently. Whether the digital copy in question is stored on a server or a device, it may be destroyed or corrupted. Furthermore, due to the fast-paced development of the technological landscape, file formats become obsolete, and it therefore seems entirely possible that a tangible book outlasts an e-book in the amount of time its user may enjoy the protected subject matter. Digital copies are further often bound to a platform or device of a specific provider. Not to mention that used audio or audiovisual content carriers, such as DVDs and blu-rays, including usual wear and tear, can provide exactly the same experience as new ones. Books or other tangible copies of protected works may, and often do, gain value by becoming a collector's item due to being a part of a certain edition or may even be valued for other features, which could, under different circumstances, be considered defects. The resale price of such books is usually a multiple of the original price set by the rightsholder on the primary market. Digital assets, safe for, *e.g.* the phenomenon of NFTs, do not generally share this feature.

52 The economic aspect of equivalence lies in considerations revolving around the question whether copyright exhaustion is able to bring about equivalent economic effects in the digital world, especially whether it is able to ensure that the rightsholder obtains adequate remuneration. The focal point of the argument asserting the economic inequivalence of transmission of digital and tangible copies of protected works relates to copyright piracy concerns and the asserted ease with which digital copies may be exchanged. In simpler terms, this argument asserts that defying the "one (legal) copy, one user" principle is easier in the digital domain. On the other hand, so is equipping the digital content with protective measures. This argument is once again a question of technology, not a normative basis for the refusal of the rationale of exhaustion as such. While it is undeniable that no technical solution is perfect, and that every conceivable solution, however ingenious and inventive, may most likely be bypassed, whether now or in the future, this is not a feature characteristic only to digital content. It is clear that the internet facilitates the ease with which reproductions, legal and illegal alike, can be made and distributed. However, the very same can be said about the invention of a printing press. For this argument to become a solid obstacle for the relevance of the rationale of exhaustion, one would have to conclude that under no circumstances is it possible for digital copies to be protected in a comparable manner as tangible ones. But this is hardly the case in the age of technologies such as blockchain, delete-and-forward technologies and many others, which make the transactions with digital copies more transparent and allow to observe the mentioned "one copy – one user" rule in the digital domain.

53 The CJEU mentions that it is obvious that exchanging digital copies requires neither additional effort nor additional cost, so a parallel second-hand market would be likely to affect the interests of the copyright holders in obtaining an appropriate reward for their works much more than the market for second-hand tangible objects.[76] By this, the CJEU presumes a lot about the behaviour of the user, as it presumes that merely because the users have the option to resell, the users will change their behavior in such a significant way that it substantially endangers the primary market. Of course, this would benefit the user, as mentioned above, as any investment into the digital copy would no longer present sunk costs. But there seems to be no convincing evidence to support this presumption[77] and if there is any, it is not presented in the *Tom Kabinet* case. Geiregat raises another interesting point, this point being that maybe the residual value of e-books, among other, lying in the acquirers being willing to transfer them, is exactly the reason why they should be able to do so, rather than a reason to exclude transferability.[78] All of these arguments are valid, however, the considerations around them are not binary. Balancing must be carried out in order to count with the nuances of various situations which may occur. It seems inadequate to treat the above rightsholder concerns as self-evident truths forever barring exhaustion from the digital domain. And it further seems inadequate to deem these concerns applicable in any case under the InfoSoc Directive, however not in the case of the cases related to computer programs under Software Directive.

74 Simon Geiregat, *Supplying and Reselling Digital Content: Digital Exhaustion in EU Copyright and Neighbouring Rights Law* (Edward Elgar Publishing 2022) 159.

75 ibid.

76 Tom Kabinet case (n 28), para 58.

77 Geiregat (n 74) 164.

78 ibid.

54 Many of the arguments regarding functional and economical (in)equivalence present in the *Tom Kabinet* case reject digital exhaustion and the rationale behind it, rather than genuinely assessing whether the application of copyright exhaustion in the digital domain may be functionally and economically equivalent.

C. Conclusion

55 More than a decade after the landmark *UsedSoft* case, the landscape surrounding digital exhaustion remains unclear. Even after all this time, the path to digital exhaustion in the current legislative landscape of the EU seems to be all but simple. But as shown above, the fundamental rationales of copyright exhaustion remain and apply indiscriminately on the selected mode of distribution. From a policy perspective, normatively excluding copyright exhaustion causes a significant shift of balance in favour of the rightsholders, with little rational policy arguments supporting this shift.

56 The inconsistency in the answers to the questions surrounding digital exhaustion may be a symptom of a more general inconsistency within the case law of the CJEU concerning the secondary dissemination of protected works in the digital domain. On the one hand, the exclusive right of communication to the public is not subject to exhaustion, yet this has by no means prevented the CJEU from developing extensive case law effectively exempting certain acts of communication from the scope of this right in an exhaustion-like manner. [79] On the other hand, the CJEU makes further steps in the other direction by expanding the term "new public" scope. In the case of exhaustion, in the *UsedSoft* case, the CJEU strongly prioritizes a flexible teleological approach over the wording of the relevant law and examines digital exhaustion without even considering whether distribution right even applies, but in the *Tom Kabinet* case, the CJEU sticks to a literal interpretation of the wording of the InfoSoc Directive. Another culprit may be found in the rigidity of the copyright law framework. But one can hardly blame the authors of copyright treaties coming from the age of VHS tapes for being unable to predict the fast-paced technological development of the years to come.

57 It has not been persuasively shown that the balance intended by the introduction of copyright exhaustion became obsolete in the digital age.[80] Therefore, there is cause for concern when the shift in the balance brought about by the development of technology so one-sidedly favours the rightsholders. The issues underlying exhaustion in the digital domain call for nuanced solutions, carefully considering the impact on the rights and interests of various stakeholders in the market with protected works. Of course, it is a different question completely what the practical relevance of each right from the existing framework of exclusive rights is going to be in the not-so-distant future.

58 On the one shore stand means of dissemination of protected works such as streaming, software-as-a-service and others, the relevance of which is constantly on the rise within the recent years and which could, effectively make the distribution right obsolete and any further considerations would concern the "right to access", rather than secondary transactions with protected works. On the other shore, there is the momentum-gaining concept of Web 3.0, which, through the means of blockchain-based technologies, such as NFTs embraces individual ownership of immaterial goods and the individual freedom to dispose of them freely, as part of digital self-determination. Furthermore, both of these streams are not mutually exclusive and will most likely grow along each other. In the absence of a crystal ball, any predictions are necessarily precarious. However, irrespective of further development in one way or another, one thing remains certain – a balanced approach to legal concepts such as copyright exhaustion in the digital domain is necessary and the underlying issues are, after more than a decade, far from solved.

79 Oprysk (n 45) 1329.

80 Targosz (n 50) 346.