

jipitec

1 | 2015

Volume 6 (2015)

Issue 1

ISSN 2190-3387

Articles

On the Search for an Adequate Scope of the Right to Be Forgotten
by Rolf H. Weber

The Right of the Author to Grant Licenses for Non-Commercial Use:
Creative Commons Licenses and the Directive on Collective Management
by Axel Metzger and Tobias Heinemann

Digital First Sale Doctrine Ante Portas: Exhaustion in the Online Environment
by Peter Mezei

Open Data and Earth observations: The Case of Opening
Up Access to and Use of Earth Observation Data Through
the Global Earth Observation System of Systems
by Catherine Doldirina

Under One Umbrella: Problems of Internet Retransmissions of
Broadcasts and Implications for New Audiovisual Content Services
by Katarzyna Klafkowska-Waśniowska

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Journal of
Intellectual Property,
Information Technology,
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ISSN 2190-3387

Funded by
DFG Deutsche
Forschungsgemeinschaft

Table Of Contents

Articles

On the Search for an Adequate Scope of the Right to Be Forgotten by Rolf H. Weber	2
The Right of the Author to Grant Licenses for Non- Commercial Use: Creative Commons Licenses and the Directive on Collective Management by Axel Metzger and Tobias Heinemann	11
Digital First Sale Doctrine Ante Portas: Exhaustion in the Online Environment by Peter Mezei	23
Open Data and Earth Observations: The Case of Opening up Access to and Use of Earth observation Data Through the Global Earth Observation System of Systems by Catherine Doldirina	73
Under One umbrella: Problems of Internet Retransmissions of Broadcasts and Implications for New Audiovisual Content Services by Katarzyna Klafkowska-Waśniowska	86

On the Search for an Adequate Scope of the Right to Be Forgotten

by **Rolf H. Weber*** Professor of Civil, European and Commercial Law at the Law Department of the University of Zurich

Abstract: During the last decades, the virtual world increasingly gained importance and in this context the enforcement of privacy rights became more and more difficult. An important emanation of this trend is the right to be forgotten enshrining the protection of the data subject's rights over his/her "own" data. Even though the right to be forgotten has been made part of the proposal for

a completely revised Data Protection Regulation and has recently been acknowledged by the Court of Justice of the European Union ("Google/Spain" decision), to date, the discussions about the right and especially its implementation with regard to the fundamental right to freedom of expression have remained rather vague and need to be examined in more depth.

Keywords: Right to Be Forgotten; CJEU; Data Protection Regulation; Privacy; Freedom of Expression

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Recommended citation: Rolf H. Weber, On the Search for an Adequate Scope of the Right to Be Forgotten, 6 (2015) JIPITEC 2, para 1.

A. History and Contents of the Right to Be Forgotten

1 The "right to be forgotten" reflects the claim of an individual to have certain data deleted from the Internet so that third persons can no longer trace them. In contrast, the "right to forget" refers to the already intensively reflected situation that a historical event should no longer be revitalized due to the length of time elapsed since its occurrence.¹ From a substantive perspective, the right to be forgotten is based on the autonomy of an individual becoming a right holder with respect to personal information on a given time scale; the longer the origin of the information goes back, the more likely personal interests prevail over public interests.²

2 The right to be forgotten can play a role in different situations depending on the circumstances and the time aspects:³

- The purpose of the undertaken data processing has been achieved and the respective data are not

to be stored or made available any longer. In this situation, two generally accepted data protection principles, namely the proportionality principle and the purpose limitation principle in case of data processing, justify the deletion of the data.

- The processed data are on a decreasing importance slope and their impacts are "overruled" by persisting priorities of the individual, i.e. private interests exceed public interests.
- The importance of the processed data and their respective impacts on the society are decreasing due to changing priorities, i.e. the environment influences the (diminishing) justification of the data storage.

3 The right to be forgotten can also be differentiated according to possible compliance situations with the legal framework:⁴

- In case of an initial unlawfulness that has inhered in the processing from its very beginning, the storage of data will never be able to be justified.
- A non-initial unlawfulness can be pre-existing in a way that this situation has started at a point in time after the beginning of the data processing but before the potential exercise of the right to be forgotten.
- The unlawfulness can occur subsequently, namely at the moment of the very exercise of the right to be forgotten.

4 So far, the recent discussions about the right to be forgotten have remained rather vague and abstract. This contribution pleads for the development of an approach that is based on the relevant factual situations and related compliance aspects instead of general perceptions. Such an approach appears to be particularly appropriate in the case of a “conflict” between two fundamental rights (privacy and freedom of expression).

B. Data Protection Regulation

5 In January 2012, the European Commission submitted the proposal for a completely revised Data Protection Regulation (DPR) which is supposed to replace the Data Protection Directive 1995.⁵

I. Rationale of the New Approach

6 When presenting the new Data Protection Regulation, Commissioner Viviane Reding emphasized that “if an individual no longer wants his personal data to be processed or stored by a data controller, and if there is no legitimate reason for keeping it, the data should be removed from their system”.⁶ The right to be forgotten should enable the data owners to be in control of their own identity online. This rationale is reaffirmed in the Recital 53 of the proposed DPR that, after affirming the right to be forgotten of the data subject, observes the particular relevance of this right “when the data subject has given their consent as a child, when not being fully aware of the risks involved by the processing, and later wants to remove such personal data especially on the Internet”. Nevertheless, it has always been assessed that the right to be forgotten is not absolute and that it must not take precedence over freedom of expression or freedom of the media (Recital 53).

7 The pre-existing “right to erasure” subject to the Data Protection Directive 1995 has been enlarged to a “right to be forgotten and to erasure” in the draft submitted by the European Commission,⁷ however, the parliamentary discussions⁸ led to the conclusion

that it would be more appropriate to “delete” the right to be forgotten again and to concentrate on the right to erasure.⁹ In contrast, the Council of the European Union’s position of December 2014 names Article 17 DPR still “Right to be forgotten and to erasure”.¹⁰

II. Scope and Content of the Right to be Forgotten

8 Article 17 (1) DPR specifies the scope of the right to be forgotten (i.e. the right to erasure). This right can be invoked against the data processor if (i) the processing concerns data that are no longer necessary “for the purpose for which they were collected or processed”, (ii) consent has been withdrawn or the storage period consented to has expired, such consent providing the only legal basis for the processing, (iii) the data subject validly objects to the processing, or (iv) the processing violates the legal instrument on any other ground.

9 As mentioned,¹¹ the situation of the lack of further necessity to keep the data can be assessed under the perspective of the fundamental principle of purpose limitation having been in place for quite some time. The withdrawal of the consent also constitutes a well-known concept; if the justification reason for the data processing has elapsed, the storage of data cannot continue any longer. The most difficult situation must be seen in the valid objection by the data subject. The last condition has a residual function, covering processes that are unlawful for any other grounds.

10 The main entitlement in the right to be forgotten is the normative power to inhibit the continuation of the processing or storage of data. From a procedural perspective, the data subject has a right to an injunction to this effect. Furthermore, the data subject is entitled to enforce the termination of the illegal processing; this right is inalienable, similarly to a property right, and cannot be renounced.

11 A certain limitation of scope and content of the right to be forgotten consists in the description of the addressee being obliged to comply with an erasure complaint: According to Article 4 (5) and (6) DPR in conjunction with Article 17 DPR only the controller of data is subject to the obligation to delete certain data upon request. Consequently, only if Internet intermediaries can be qualified as data controllers in regard to content originated from third parties, they will be subject to these obligations.¹²

III. Exceptions of the Right to be Forgotten

- 12 The right to be forgotten is not an absolute right. Some apparent exceptions are set out in Article 17 (3) DPR: For example, the controller of data is exempted from the obligation to erase the data to the extent that (i) the processing is necessary for the sake of certain other rights and interests, namely the exercise of the freedom of expression in line with Article 80 DPR, (ii) that public health considerations prevail (Article 81 DPR), (iii) that requirements of historical, statistical and scientific research need to be met (Article 83 DPR) and (iv) that compliance with other legal obligations is compulsory.
- 13 As far as the freedom of expression is concerned, legal problems cannot be overlooked: Article 80 DPR “only” contains an authorization/obligation for Member States to limit data protection in order to enable the processing of data carried out for the purpose of journalism and authentic and literary expression. However, the scope of this provision is unclear: Should the rule be understood in the way that processing of personal data for the purposes of journalism and authentic and literary expression are forbidden according to EU law? Should an authorization to processing personal data for such purposes “only” exempt the processing from the right to be forgotten while maintaining its unlawfulness? Both questions are likely to be negatively answered.¹³ Nevertheless, the fundamental right of freedom of expression does not seem to be covered by the exception rule, i.e. the scope of the right to be forgotten as stated in Article 17 DPR cannot be limited by reference to this fundamental right. This lack of clear rules giving guidance for the reconciliation of two fundamental rights¹⁴ constitutes a major weakness of the proposed exceptions’ regime.
- 15 The first issue pertains to the general problem of freedom of expression as confronted with the privacy rights of data subjects. These rights can hardly be “reconciled”, if reconciling means maximising the satisfaction of both; the occurring conflict can only be “settled” by applying a balance of interest test. Therefore, in order to find an appropriate trade-off, not only should the general rules be applied, but the path-dependency of the contextual factors must be taken into account.
- 16 With respect to the second issue regarding the liability of intermediaries, it appears to be doubtful whether data protection law alone can provide the best legal framework, even if complemented with fundamental rights. In other words, the specific provisions as contained in Articles 13-15 of the EU E Commerce Directive of 2000 merit better attention in the context of the right to be forgotten.

C. Jurisprudence of the Court of Justice of the European Union

- 17 In May 2014, the Court of Justice of the European Union (CJEU) acknowledged the right to be forgotten in the so-called “Google/Spain” case.¹⁶

I. Facts of the “Google/Spain” Case

- 18 A Spanish citizen having been requested to sell property by way of forced auction more than ten years ago filed a complaint with the national Data Protection Agency against a Spanish newspaper and against Google Spain and Google Inc. in the year 2010. The individual was of the opinion that an auction notice of his repossessed home on Google’s search results infringed on his privacy rights because the proceedings had been fully resolved for a number of years and hence the reference to these proceedings was entirely irrelevant. As far as Google Spain and Google Inc. were concerned, the individual requested that the link to the respective information on the website of the Spanish newspaper would have to be deleted so that it no longer appeared in the search results.
- 19 The Spanish court referred the case to the Court of Justice of the European Union submitting three questions, namely (i) whether the Data Protection Directive 1995 of the EU applied to search engines such as Google, (ii) whether EU law applied to Google Spain, given that the company’s data processing server was in the United States, and (iii) whether an individual has the right to request that his or her personal data be removed from accessibility via a search engine (the ‘right to be forgotten’).

IV. Lack of Clear Rules on Conflicts between Fundamental Rights

- 14 Without any doubt, the intention of giving the data subject the right to have certain data deleted over time must be supported. However, Article 17 DPR fails to address important problems that have justified its proposal. In particular, the new legal instrument does not contain provisions as (i) to the extent up to which a publication or its persistence through time is legitimate, even when it may go against the interest, or in any case the will, of the data subject and (ii) to the extent up to which the intermediary, rather than the originator of the information, can be responsible for its publication or for failing to comply with removal requests.¹⁵

II. Decision in the “Google/Spain” case

- 20 In its ruling of 13 May 2014, the Court of Justice of the EU expressed the opinion that (i) even if the physical server of a company processing data is located outside Europe, EU rules apply to search engine operators if they have a branch or a subsidiary in a EU Member State which promotes the selling of advertising space offered by the search engine (on the territoriality of EU rules), (ii) that search engines are controllers of personal data and that therefore Google cannot escape its responsibility under the EU Directive 95/46 when handling personal data through a search engine (on the applicability of EU data protection rules to a search engine), and (iii) that individuals have the right under certain conditions to ask search engines to remove links with personal information about them (on the “right to be forgotten”).
- 21 In particular, the Court of Justice was of the opinion that the right to be forgotten would apply if the information is inaccurate, inadequate, irrelevant or excessive for the purposes of the data processing.¹⁷ The Court of Justice also expressed the opinion that in this particular case the interference with a person’s right to data protection could not be justified merely by the economic interest of the search engine.¹⁸ However, the Court of Justice clearly found that the right to be forgotten would not be absolute but would always need to be balanced against other fundamental rights without discussing a balance of interest test between privacy and the freedom of expression in detail.¹⁹ Therefore, the Court of Justice clarified that a case-by-case assessment is needed considering the type of information in question, its sensitivity for the individual’s private life and the interest of the public in having access to the relevant information.²⁰
- 22 The decision of the Court of Justice does not concern the “deletion of information”, but “only” the “deletion of a link”. In other words, the critical information can still be found by way of searching through google.com or another search engine.

III. Google’s Reaction

- 23 Google has criticized the decision of the Court of Justice but reacted quickly by uploading to the website a form which allows individuals to file a request for removal of personal data.²¹ On the one hand, the form is relatively simple and can be filled out quickly; apart from a detailed paragraph outlining the reasoning for the request, no specific details are to be disclosed; nevertheless, a clear identification of the intervening individual must be submitted. Google also announced that it would

closely cooperate with the European data protection authorities and appointed an independent council designing the general principles to be applied in individual cases.

- 24 In the meantime, already more than 200,000 erasure requests have been filed with Google, of which about 40% were approved.²² Transparency with respect to the detailed reasoning of the requests is not given (Google’s Transparency Reports only disclose figures and general information, not detailed arguments), i.e. Google’s decision-making power when assessing the complaints is very broad.

IV. Follow-up Court Practice

- 25 Following the “Google/Spain” decision of the CJEU national courts have applied and interpreted the acknowledged right to be forgotten in different ways:
- The competent court in Barcelona awarded damages to an individual similarly concerned as the Spanish citizen in the “Google/Spain” decision; however, the amount was much lower than claimed by the individual.²³
 - An Amsterdam court rejected a complaint to have certain information deleted based on the argument that the referenced information would not be inaccurate or inadequate in the sense of the “Google/Spain” decision.²⁴
 - A Japanese court decided along the lines of the CJEU reasoning in a judgment rendered in October 2014.²⁵
 - A Spanish court ruled in early 2015 that Google must remove links from a search on a man’s name; from a reference in the decision the conclusion can be drawn that the judgement concerned the individual of the “Google/Spain” case.²⁶
- 26 Consequently, the already available court practice since the “Google/Spain” decision shows that a clear delineation of the right to be forgotten has not (yet) been developed. This fact jeopardizes the legal certainty and increases the discretion of the concerned search engine enterprises; from a legal perspective, this result is undesirable.

D. Possible Contours of a Right to be Forgotten

- 27 Without any doubt the interest of an individual that certain information having become irrelevant is not any longer accessible merits to be protected in

certain circumstances. This assessment was already applied prior to the time of the virtual world; for example, if the criminal conviction of a person long ago should not be disclosed anymore.²⁷ The new possibilities to store and spread information, however, require a closer look at the contours of a justifiable right to be forgotten. The respective analysis can be done from a constitutional law perspective or from a regulatory angle.

I. Tensions between Privacy and Freedom of Expression

28 Tensions between privacy in the specific form of the right to be forgotten and freedom of expression/information mirror the balancing test between different interests, often but not always between private interests and public interests. In the Internet age, the most probable/typical situation consists in the following scenario: A certain piece of information is very relevant to the public for a short time after its disclosure (for example, information about a crime). Afterwards, however, this information progressively loses the general interest; nevertheless, it might continue to have a significant impact on the situation of the person concerned (for example, the convicted person after having been released from prison). Consequently, while the benefit to society might outweigh the loss of the individual at the beginning, at a certain point in time, a change occurs insofar as the loss in privacy could outweigh the benefits derived from the freedom of expression. Arguably, at this point, the concerned individual must be entitled to exercise the right to be forgotten.²⁸

1. Lack of Coherent Constitutional Perceptions

29 Without a doubt, the Internet is a global medium, and information uploaded onto the Internet is accessible around the globe. Together, these facts create a problem: that a global search engine is confronted with different legal (constitutional) regimes. As the “Google/Spain” case has shown, the Spanish citizen complaining about the existence of a link could force Google to delete this link, but the information is still available and can be retrieved either through google.com or any other search engine. Google also clearly indicated that only the links from European websites are deleted (making people eventually even curious by adding the remark that the search could be limited due to European regulations).

30 In other countries, the balancing test between two fundamental rights (such as the privacy right and the freedom of expression) could lead to another result. Typically, this statement can be exemplified by way of a comparison between European and

American law: In Continental Europe the ideas of autonomy, self-determination and the right to be secure in one’s own reputation from intrusion by others play a key constitutional role; in contrast, American law (mainly the First Amendment to the US Constitution) reflects the traditional distrust of centralized power, i.e. the “freedom of speech is recognized over privacy as a fundamental value, paramount to a functional democracy and an educated society”.²⁹ As a consequence, scholars argue that the United States would never implement a right to be forgotten.³⁰ In view of this disparity, it can hardly be seen how a reconciliation of the two fundamental rights is achievable on a global level.

31 The problem of this tension has also been addressed by the Advocate General, Niilo Jääskinen, in his submission of June 25, 2013, to the CJEU, discussing the conflict between two fundamental rights that cannot easily be overcome.³¹ The Advocate General pointed to the fact that search engines would play an important role to the benefit of individuals who are interested in finding certain information and that the search processes would constitute an important concretization of the freedom of expression in the information society.³² Based on that, the Advocate General pleaded for the execution of an appropriate balancing test between the different fundamental rights protecting different freedoms; as a result of such a balancing test, the communications freedoms are considered the prevailing human rights.³³

32 An additional constitutional problem which has hardly been addressed so far concerns the question of whether or not, or at least to what extent, the freedom of speech guarantees an easy and speedy access to information at all. Are Internet users entitled to completeness concerning search engine providers’ result lists? And, if so, of what relevance is it that Google did not disclose its search algorithm so far? Thus, it is still incomprehensible according to what criteria the search engine provider represents its results (or even excludes some results).

33 Therefore, Google has been rigorously criticized for years for rigging the results for their own benefit and to preferentially display their own services; as a result, an investigation before the EU competition commission has been pending since 2010.³⁴ Given the increasing importance of search engines in the Internet users’ daily life and, in particular, Google’s market share which amounts to more than 90 percent in Europe, it is necessary to ensure that Google is not misusing its market power.³⁵ Feeling unjustly criticized, Google rejected all accusations.³⁶ Addressing this issue, the German Federal Minister of Justice, Heiko Maas, (like others) repeatedly invited Google in September 2014 to enhance transparency. The outcome of the different antitrust proceedings involving Google will probably last for quite some time.³⁷

34 Apart from the theoretical problem of reconciling two fundamental rights, it corresponds to the understanding of a State based on legal principles (“Rechtsstaat”) that such tensions are to be assessed and decided upon by a court (a legal body). Following the “Google/Spain” case, this decision-making power is transferred to a private body, namely the search engine, at least as a first step. Only this private decision can be challenged in court if the concerned person becomes aware of the deletion of a link. It appears to be at least questionable whether or not search engines are qualified to reasonably judge the conflicting interests between an individual (protection of privacy) and an Internet intermediary (safeguarding the openness of communication channels). In a public statement (so-called position paper), a judge of the German Constitutional Court expressed the fear that Google would become a “private arbitral tribunal” with far-reaching discretionary decision power about the communications flow in the Internet.³⁸

2. Models for Concretizing the Time Factors

35 The maximisation of the overall outcome in an information society is obtained if a switch from making available all information to erasing certain data is done at the time when the loss in privacy outweighs the benefits derived from the freedom of expression. In other words, the right to be forgotten plays a role in a situation in which certain information relevant for public security loses most of its significance (for example, when the effects of crimes can be immediately detected) while continuing to have a negative impact on the privacy of the person whose data is stored.³⁹

36 The possibility of tracing the conflict between privacy and transparency through partial concealment or integration (rather than deletion) assumes that the differential benefit provided by the new form of processing is positive after the switch time has been reached. For a concretization of this approach the traditional economic analysis models can be used: with a curve showing the slope for the elapse of time and a curve showing the slope for the importance of society’s knowledge of a specific fact, it is possible to identify at which point (namely where the two slopes cross) the solution should be localized.⁴⁰

37 Obviously, probability considerations have to be taken into account in order to assess the flow of time. In order to properly identify the pointing time from which the data controller will no longer be motivated to continue distributing the information, three aspects play a role:⁴¹

- The loss that the party would suffer in case the data were considered to be illegal (publicity interests being outweighed by private interests);
- The probability that the party assigns to the data being considered illegal;
- The motivation that the party has for leaving the material online.

38 In a nutshell, this assessment of potential time expiration models leads to the conclusion that certain relevant factors can be defined, which allow for the execution of a balancing test between two fundamental rights. But, in any case, the factual environment and the historical experience continue to play an important role in the decision-making process.

II. Regulatory Delineation of the Scope for a Right to be Forgotten

1. Art. 17 DPR

39 An alternative to the often vague and uncertain interest balancing test in the constitutional context would consist of a detailed regulatory delineation of the scope of a right to be forgotten. This attempt has been undertaken by the European Commission with Article 17 of the proposed Data Protection Regulation. However, apart from the fact that the EU Parliament has deleted the reference to the “right to be forgotten”⁴² by shortening the heading of Article 17 to a “right of erasure,” the submitted wording is not convincing.

40 Some problems, particularly related to the exceptions of the right to be forgotten, have already been analysed.⁴³ In addition, the wording appears to be, by far, too complex since the application of some provisions in Article 17 DPR may give rise to uncertainties that could have been prevented by a more thoughtful formulation of the provisions on the “right to erasure” and the “right to be forgotten”. By way of example, the proposed Article 17 para 2 DPR obliges controllers making personal data public to accordingly inform third parties which are processing the data; this provision’s content is unclear and the addressee is vague. The EU Parliament’s alteration of this Article-- to the effect that the controller, who has made the information public without a justification, has to take all reasonable steps to have the data erased-- cannot be seen as a remedy and rather increases the provision’s indeterminacy.⁴⁴ Additionally, redundancies and inconsistencies with the language used in other parts of the newly proposed Regulation do exist.⁴⁵

2. Article 29-Working Group

- 41 Another approach has been chosen by the EU's Article 29-Working Group which has issued guidelines on the implementation of the Court of Justice's Google Spain judgement on 26 November 2014.⁴⁶ These guidelines concretize the right to be forgotten by offering a list of 13 criteria for European data protection authorities (DPA) to take into consideration when handling complaints (on a case-by-case basis). First of all, the DPA has to ensure that the search results relate to a natural person and come up against a search on the data subject's name (No. 1); provided the data subject plays a role in public life, there is usually an interest of the public in having access to the information about them (No. 2). The data subject's age can be seen as another important factor; in the event that the data subject is a minor, the DPA is more likely to require de-listing of the relevant results (No. 3). Concerning the published data, the data protection authorities need to assess whether the data are accurate, relevant and not excessive (Nos. 4 and 5) and, if so, whether or not the data is up-to-date or being made available for longer than is necessary for the purpose of the processing (Nos. 7 and 8).
- 42 In the instance that the relevant information is classified as being sensitive within the meaning of Art. 8 of the Directive 95/46/EC or if the search results link to information putting the data subject at risk, the DPAs are more likely to intervene when a de-listing request is refused (Nos. 6, 9). The result of the assessment should be the same in cases where the content was voluntarily made public by the data subject that revoked its once given consent later (No. 10). As far as the published data relate to a criminal offence, the interest of the general public to have access to the information might be increased (No. 13). Besides that, it may also be relevant to consider whether the information has been published for a journalistic purpose (No. 11) and whether the publisher of the data had a legal power or obligation to make the personal data publicly available (No. 12).
- 43 These criteria should be seen as a flexible working tool, and all de-listing requests should be assessed on a case-by-case basis in consideration of the factual environment. In summation, it can be said that a regulatory framework delineating the scope of the right to be forgotten must consist of a cluster of protection measures⁴⁷ which adequately assess the different interests involved.
- ### 3. Liability of Internet intermediaries
- 44 Apart from the above discussed need to define precise regulatory criteria, a further important aspect has not been discussed in-depth so far: As

mentioned, as a consequence of the "Google/Spain" decision, the search engines do have wide discretion in the decision-making about submitted requests to have certain links deleted, thereby executing the function of a judge;⁴⁸ however, the risk of liability occurs. In order to motivate search engines to thoroughly assess the legal situation in the case of an erasure request, the risk for becoming liable due to a "wrong" decision should be particularly reflected in the regulatory regime.

- 45 As a consequence, it would be worthwhile to consider to what extent the specific liability provisions contained in Articles 13-15 of the Directive on Electronic Commerce (E-Commerce Directive)⁴⁹ should also be applicable in the context of the right to be forgotten. Is it justifiable to grant a privilege to a search engine provider along the lines of the E-Commerce Directive's immunities for avoiding sanctions when failing to comply with an erasure request?⁵⁰ The answer to this question depends on whether the provider, having been requested to remove data, can still be considered as not having knowledge of these data's illegality. If this knowledge encompasses both the provider's awareness that certain data are hosted in his platform and that the respective data are illegal, a provider having failed to comply with a justified removal request is subject to injunctions by the component authorities but may still be released from liabilities for processing the data as long as an uncertainty existed on whether such processing violated data protection law.⁵¹

E. Overall Assessment and Outlook

- 46 Privacy is an important value and a fundamental right that has been underestimated for many years. In addition, the enforcement of privacy rights is becoming more and more difficult in the virtual world. Therefore, particularly in Europe, privacy has been perceived as a fundamental right which merits higher attention.
- 47 An emanation of this trend is the newly propagated right to be forgotten which protects the control right of the data subject over his/her data. However, the legal implementation of such a right is more difficult than the moral appreciation. The deletion of information can have an impact on third persons and on the society as a whole.⁵²
- 48 This assessment can be easily made if an analysis of the proposed Article 17 DPR is done; the rationale of the proposed provision merits support, but the wording, as such, is not convincing and should be adapted and amended in order to become a guiding force in the field.⁵³
- 49 A similar evaluation can be done with respect to the "Google/Spain" decision of the EU-Court

of Justice: The wish to have the Spanish citizen protected against disclosure of quite old information is understandable; however, the chosen approach does not solve many problems but rather causes additional problems. Furthermore, Google is not obliged to delete certain pieces of information but only to remove the link to this information, having the consequence that the information can still be found through other technical measures, such as the search engine of Google.com or the initiation of a search process with more variables.

50 In particular, neither the Data Protection Regulation nor the “Google/Spain” decision clearly address the tensions caused by the parallel application of the freedom of expression and the right to be forgotten.⁵⁴ The tensions are occurring because two fundamental rights need to be balanced against each other in order to avoid contradictory results, notwithstanding the fact that a reconciliation between the two fundamental rights is quite difficult. Even the proposed DPR, that could have stated specific rules in relation to the applicability of privacy or freedom of expression, remains silent on this point.

51 The guidelines of the Article 29-Working Group on the implementation of the “Google/Spain” judgement offer a list of 13 criteria to handle complaints and therewith also concretize the right to be forgotten. But the Working Group’s guidelines address the right to freedom of expression only marginally and leave room for interpretation, too.

52 This situation leads to the fact that Internet intermediaries and search engines become responsible for monitoring the Internet traffic. This unfortunate situation cannot easily be remedied. Notwithstanding the fact that the “Google/Spain” decision only requests the search engine to remove the links to the contested information, not to delete the information, more attention should be paid to the possibilities of improving the difficult reconciliation between the two fundamental rights. In this context, the responsibility of search engines in their function as Internet intermediaries needs to be reconsidered and legally adapted to the requirements of the respected activity.

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1 See Rolf H. Weber, *The Right to Be Forgotten. More Than a Pandora’s Box?*, JIPITEC 2011, p. 120, n 3.

2 Weber (supra note 1), p. 125, n 27-31.

3 For more details see Giovanni Sartor, *The right to be forgotten: Publicity, privacy and the passage of time*, in: Schartum/Bygrave/Berge Bekken (eds.), *Jon Bing – A Tribute*, Oslo 2014, pp. 79, 81-93.

4 Sartor (supra note 3), p. 99.

5 See Proposal for a Regulation of the European Parliament and of the Council on the protection of individuals with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation), COM (2012) 11 final, 25 January 2012, available at: http://ec.europa.eu/justice/data-protection/document/review2012/com_2012_11_en.pdf.

6 Viviane Reding, *The EU Data Protection Reform 2012: Making Europe the Standard Setter for Modern Data Protection Rules in the Digital Age*, Speech at the Conference Digital, Life, Design Munich, 22 January 2012, available at: http://europa.eu/rapid/press-release_SPEECH-12-26_de.htm.

7 See Proposal for a General Data Protection Regulation (supra note 5), Art. 17.

8 See European Parliament legislative resolution of 12 March 2014 on the proposal for a regulation of the European Parliament and of the Council on the protection of individuals with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation), 12 March 2014, available at: <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2014-0212+0+DOC+XML+V0//EN>.

9 See also Giovanni Sartor, *The right to be forgotten in the Draft Data Protection Regulation*, *International Data Privacy Law*, 2015, Vol. 5(1), 64-72, p. 71.

10 Council of the European Union, 15395/14, 19 December 2014, available at: <http://amberhawk.typepad.com/files/dapix-text-eu-council-dp-reg-december-2014.pdf>; see also Sartor (supra note 9), p. 71.

11 See above margin number 2.

12 Sartor (supra note 9), p. 65.

13 Sartor (supra note 9), p. 67.

14 For a more detailed discussion of this so far often neglected problem see margin numbers 14 and 28.

15 Sartor (supra note 9), p. 70.

16 CJEU, Decision of May 13, 2014, Rs C-131/12, *Google Spain SL, Google Inc./Agencia Espanola de Protección de Datos*, Mario Costeja González.

17 CJEU (supra note 16), n 92-94.

18 CJEU (supra note 16), n 81.

19 CJEU (supra note 16), n 81.

20 CJEU (supra note 16), n 94.

21 See Google, *Search removal requests under data protection law in Europe*, available at: https://support.google.com/legal/contact/lr_eudpa?product=websearch&hl=en.

22 See Google Transparency Report, *European privacy requests for search removals*, available at: <http://www.google.com/transparencyreport/removals/europeprivacy/?hl=en>

23 Barcelona Court of Appeals, 364/2014, 17 July 2014, online available at: <http://www.poderjudicial.es/search/doAction?action=contentpdf&databasematch=AN&reference=7173091&links=08019370162014100388&optimize=20140929&publicinterface=true>.

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- 27 See Weber (supra note 1), p. 121, n 7.
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- 39 To the civil law perception see Weber (supra note 1), pp. 121/22, n 5-9.
- 40 This approach has been chosen by Sartor (supra note 3), p. 92.
- 41 Sartor (supra note 3), p. 99.
- 42 See European Parliament legislative resolution of 12 March 2014 (supra note 8).
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- 44 Sartor (supra note 9), p. 72; the author (p. 72) considers Article 17 para 3 DRP DPR of being anyhow unnecessary since the exclusion of lawful processings from the scope of the right is obvious due to the fact that Article 17 para 1 DRP DPR only covers unlawful processings.
- 45 For further details see Sartor (supra note 9), pp. 65/66.
- 46 Article 29 Data Protection Party, *Guidelines on the Implementation of the Court of Justice of the European Union Judgement on "Google Spain and Inc. v. Agencia Española de Protección de Datos (AEPD) and Mario Costeja Gonzales"* C-131/12, 14/EN WP 225, adopted on 26 November 2014, available at: http://ec.europa.eu/justice/data-protection/article-29/documentation/opinion-recommendation/files/2014/wp225_en.pdf.
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The Right of the Author to Grant Licenses for Non-Commercial Use

Creative Commons Licenses and the Directive on Collective Management

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Keywords: Licenses for non-commercial use; Collective Management Organisations; Creative Commons

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Recommended citation: Axel Metzger and Tobias Heinemann, The Right of the Author to Grant Licenses for Non-Commercial Use: Creative Commons Licenses and the Directive on Collective Management, 6 (2015) JIPITEC 11, para 1.

A. Introduction

1 Art. 5 para. 3 CM directive¹ reserves the rightholders the right to grant licences for non-commercial uses of any rights, categories of rights or types of works and other subject-matter that they may choose. As the directive on collective management of copyright passed the legislative procedure on 26 February 2014, the member states have to bring into force the laws, regulations and administrative provisions necessary to comply with this directive by 10 April 2016. Regarding Art. 5 para. 3 CM directive this means that from that day on, every rightholder in the EU shall have the option to license parts of their own work repertoire for non-commercial use autonomously and at the same time let collective management organisations (CMOs) collect money for the commercial use of these works. As a consequence, authors and other rightholders should no longer be in the dilemma to either choose a participation in a collective rights management system or to use “non-commercial licenses”, a category which is further explained in this contribution. As easy as this is said, several difficulties lie within the way of implementing the provision in national law which shall be examined in this contribution, but not before

the current status quo and the legislative procedure of the provision have been dealt with.

B. Status quo

2 At first it is necessary to take stock of the conditions that can be found in the collective rights management.

I. Difficulties under the current legal regime

3 Looking at the current practice of collective rights management in the EU, the alternative that CMOs license the works of the authors represented by them on the basis of non-commercial licenses is not common at all. In certain sectors, authors struggle when they want a collecting society to exercise their rights for commercial use, but have their works licensed for non-commercial use. Non-commercial licenses can contain copyright limitations for non-

commercial uses that are simply not in line with the terms and conditions that many collecting societies lay down in their contracts with the authors. Being represented by a CMO therefore often makes it impossible to use alternatives like the Creative Commons licenses.

- 4 This is most notably the case where authors have to assign exclusively all relevant rights in their works to the CMO, if they want to be represented by the respective CMO. If collective management organisations only assumed commercial rights, or even just cared for statutory remuneration rights, e.g. copyright levies for private copies, there would be no problem at all. Authors could administrate non-commercial licenses on their own while CMOs would just collect money for the licenses authors cannot survey efficiently. Contrasting this, the administration agreements are far more extensive in practice and let the author resign from all his rights, so that the CMOs can administrate all licenses for a work.
- 5 The consequence of such an agreement is that the authors do not have any right left that they could license for any kind of use to third parties on their own, but rather are dependent on the CMO to grant the licenses. Unfortunately, many of the big and economically relevant CMOs do not want to grant licenses for non-commercial use for many reasons (as shown in the following section), what leaves the rightholders organized in one of these CMOs with no opportunity to have their works made available for free. This is what the CM directive wants to address in its Art. 5 para 3.

II. Differences in practice due to diverse types of works – the German experience

- 6 Whether the authors can license their works for non-commercial use at this particular moment depends very much on the type of the created work. While the CMOs assuming rights in the literary sector tend to be more liberal and giving the authors flexibility concerning the non-commercial use for their works, CMOs working in the musical sector are much more imperious. This difference can be seen relatively well looking at the two biggest German collecting societies VG Wort and GEMA.

1. VG Wort

- 7 The VG Wort manages the rights of authors and other rightholders in literary works. For this, the rightholders often do not have to conclude an administration agreement with the collecting society. The VG Wort provides two models of rights

management, depending on the type of literature, and the differences following this distinction are noticeable.

- 8 In some cases it is sufficient to just notify the VG Wort². This opportunity is available for authors and publishing houses of literary works that are just published on the internet, like blog posts. More relevant is the opportunity for authors of scientific works published online and offline, who can desist from an administration agreement as well and use the option of just notifying the VG Wort. For example, the VG Wort collects money for the use of literary scientific works in scientific libraries, in detail for copying and lending the literary work, if the author of the scientific literary work notifies the VG Wort that a publication has been made. In these cases the author is then beneficiary and gets money only for this particular use of this particular work, what means that for every other use and for every other work, the right to license the work stays with him or her. Hence, the author can individually determine the licensing for non-commercial uses as well.³
- 9 When authors have rights in other types of literary works and want the CMO to manage these rights, they have to conclude an administration agreement with the VG Wort. In this administration agreement, they have to grant the collecting society considerably more rights for all of their existing and future works. Among them are not only commercial rights, but for example the right of reproduction as a whole. In this case, authors are not free to license their works for every non-commercial use.
- 10 By looking at the 2013 annual report of the VG Wort, it becomes clear that the majority of the beneficiaries do not have an administration agreement with the collecting society: from 487,083 beneficiaries only 176,742 have concluded an administration agreement, which leaves 310.341 beneficiaries without a contract of this kind⁴. Additionally, most of the rightholders who get money from the VG Wort are not members of the collecting society⁵. This means that most of the authors in the literary sector do have the option to use non-commercial licenses, but still a considerable amount of authors cannot.

2. GEMA

- 11 Taking a look at the GEMA, the picture turns rapidly. The GEMA manages the rights of authors and other rightholders in musical works. If an author wants to earn money with these works, the conclusion of an administration agreement is mandatory. The authors therefore have to exclusively assign the GEMA all-embracing rights in their existing and future works, and without the exclusive rights, an author cannot license his or her works for non-commercial uses

anymore. When all rights are exercised by the GEMA, there is no opportunity for the author to license single works with non-commercial licenses. The GEMA itself however does not grant licenses for non-commercial uses. As a consequence, it is not possible to use non-commercial licenses and still let the GEMA manage the rights in musical works at the same time. An author currently wanting to use non-commercial licenses has to withdraw all his rights from the GEMA, which would leave him alone with the rights management. As most of the uses of copyrighted works can not be supervised by a single person, authors would effectively waive for a large part of their income. It is no surprise that most of them tend to stay in the GEMA and do not use non-commercial licenses.

- 12 In a statement, the GEMA enumerated various reasons why it does not license works for non-commercial use⁶. It stated that the granting of non-commercial licenses like the Creative Commons licenses (CCPLs) is not compatible with the management model of the collecting society, as these licenses apply only on single works and for specific uses. The GEMA model of collective management could in contrast ensure an efficient and economic protection of the authors and other rightholders. If non-commercial licenses were allowed, a huge increase of administration costs would follow. Every time GEMA would want to grant a license, it had to examine if the work is licensed with a CCPL, because in this case GEMA would not be allowed to grant licenses for this work. This obligation would interfere with the working management system, not least because every rightholder represented by GEMA would suffer in the form of less payments.
- 13 Furthermore, the term “non-commercial” would not be clear enough to separate between GEMA-licenses and CCPLs, so that a sufficient distinction between collective and individual rights management would not be possible. Without a clear distinction, legal certainty could not be ensured, neither for rightholders nor users.
- 14 One of GEMAs strongest arguments though is the endangerment of cherry picking. Based on this concept GEMA believes that authors who can bring in enough profit out of concert tickets, merchandising and other business activities apart from rights management, could tend to license successful works under non-commercial licenses for free to spread them as far as possible and generate more awareness, whereas less successful works should be managed by GEMA to make at least some money with them. If this was the case, the distribution sum would reduce remarkably for every member of GEMA, even for those who are urgently dependent on remuneration payments. With a decreasing distribution sum and less money for every creative mind, the creative activity as a whole would reduce, and cultural diversity would diminish.
- 15 The fact that the members of GEMA would not favour a change of GEMA constitution would point out that the majority are against non-commercial and Creative Commons licenses.
- 16 Yet, there are strong counter arguments against the points raised by GEMA. GEMA apprehends that the efficiency of the collective management could be threatened because of increasing administration costs through detailed examination of the licenses of a work. But already today GEMA has to examine for every single work which rights are held by which rightholder, so that the distribution of the revenues can be exercised correctly. Furthermore it is questionable whether the administration costs could really increase when the necessary examination can be performed by automated procedures on the basis of databases that have all the relevant data in it already.
- 17 The claim of GEMA that the term “non-commercial” has to be filled with meaning to have legal certainty for the distinction between collective and individual rights management is not only understandable, but supportable. Nevertheless, this argument is not sufficient enough to preclude the feasibility of a combination of collective rights management and non-commercial licensing of works. Of course the legal term has to be interpreted and legal practice will have to find a sufficiently clear definition⁷. But just the fact that in the past the distinction was not clear enough is not a convincing argument that in the future this cannot be changed⁸.
- 18 Also, the argument of endangerment through cherry picking is not really persuasive. Why would successful rightholders license their most successful works with non-commercial licenses to get more awareness when they have reached already a sufficient level of awareness for their works? Why should rightholders waive at their biggest revenues? Moreover, even if rightholders grant non-commercial licenses for their most successful works, it is not obvious or self-evident that such a license grant would diminish the revenues for commercial uses. Beyond this, at least in the music sector these questions may become less relevant in the nearer future, as new business models take over and the market shifts from possession of works to access to these works⁹.
- 19 Nevertheless, GEMA insisted on its arguments in the past and did not allow its members the licensing of works with non-commercial licenses. Apart from non-commercial licenses, GEMA provides only few opportunities to adapt its collective management system to special needs of single rightholders. Beneficiaries can exclude certain branches of rights management from the collective system, for

example the broadcasting on radio or making the works available to the public online. By doing so, the rights for these uses stay with the rightholder, and he or she can exercise the rights as he or she pleases. What seems like a good option is in most cases not completely satisfying. An author who wants to make use of this alternative has to exclude all of his or her existing and future works for the chosen branch from the collective rights management, so that at least non-commercial uses can be licensed, but every other use of every work of an author in this branch has to be licensed by the author as well. Not only is it insufficient that only certain branches can be excluded, the fact that every work is excluded from the management of this branch and leaves the author with the management alone causes this option to be largely unappealing. And, as non-commercial licenses like the Creative Commons non-commercial licenses (CC-NC-licenses) want to include every type of use, the author would need to exclude his works for all branches of the collective rights management. Withdrawing all existing and future works from every branch of collective rights management would be the same as resign the membership in GEMA. Therefore, regarding non-commercial licenses, this option is not a suitable solution.

- 20 Furthermore, GEMA established a shorter 3-month cancellation period at the end of a calendar year for certain online uses, so that authors can assume their rights for these certain uses and license works for these uses with a CCPL. But again, as non-commercial licenses want to include every type of use, this option is only helpful to some extent – and again, the authors would have to cancel the collective rights management for all of their existing and future works.
- 21 For authors who have a website, GEMA provides another option. Authors can use their own works for a free stream on the website, but only on the condition that the website is personal and non-commercial. This means that authors, who have exclusively assigned to GEMA all-embracing rights, can use their own work for this without having to license their works back¹⁰. The question occurs, under which circumstances the website of a music artist, who wants to spread his work, sell it and make revenues out of merchandise, exactly is “non-commercial”. And, of course, the works are not licensed with non-commercial licenses, so that they cannot be distributed to users for further use.
- 22 In total, members of GEMA cannot use non-commercial licenses and have the CMO managing the commercial rights at the same time. The opportunities GEMA provides to give its members more flexibility are not sufficient regarding non-commercial uses.

3. Reasons for the differences between literary and musical sector

- 23 Looking at collecting societies in the areas of literature and music, the encountered differences alter from quite massive to rather small. Every author who concludes an administration agreement with the GEMA or VG Wort does not have any convincing opportunity to license his or her works for non-commercial use. However, most authors in literary works enjoy in practice some flexibility, based on the fact that they do not have to conclude an administration agreement but can still be represented for some rights by a CMO. Such authors can decide for every single work whether they want to inform the VG Wort or not, and even if they inform the CMO, it only collects money for very specific uses. As a consequence authors are free to license their works for non-commercial use and be represented by a CMO. The downside of this more flexible approach is a rather limited collective rights management for the commercial use of the works.
- 24 Additionally, the market structures of the musical and literary sector are very different. The music market is dominated by a handful of powerful and globally operating vendors (major labels) that have to face very distinct users of their works, with some of them being very powerful as well, e.g. the public broadcasting service. By contrast, the different markets for literary works are more divers with many small and medium size actors. And by examining the market shares in the music industry it becomes rapidly clear that the major labels, who are widely interested in music as a profitable and lucrative business commodity rather than spreading the works for free for non-commercial uses, are much more powerful than single literary publishing houses when it comes to debating the procedures in their industry. In 2013, the recording industry made 15 billion \$ in total¹¹, and from this amount, the three major labels¹² had a market share of 74,9%¹³. Hence, they can apply much more pressure on every other market participant, including CMOs and rightholders. Non-commercial licenses could undermine many business models of the music industry, and with rapidly shifting business models in this area, most of the market participants are rather careful loosing any protection whatsoever, especially the one they get from their rights and through the law.
- 25 Moreover, the use of music and literature differs significantly. Music in general is mostly used as a whole, tracks are played completely, whereas literature is often used in excerpts. An author of literature often has to read or publish only pieces of his work to gain more attention, musicians need their whole song to be played to make users aware of their works. When music is available for free

because it is licensed for non-commercial uses, users do not have to buy this music anymore, whereas free excerpts of literature may motivate the user to read more and even buy the full work.

- 26 Another reason for the differences between the collective management system of GEMA and VG Wort is based on the fact that the GEMA was established in 1933 as a CMO for the management of the rights of use, so that the levies for private copies are not nearly as important to the GEMA's business model as they are for the VG Wort.

III. Pilot experiments of collecting societies in other European jurisdictions

- 27 In spite of the fact that the European¹⁴ CMOs managing musical rights are normally more rigorous when it comes to non-commercial uses, several of them have started pilot experiments with Creative Commons. The collecting societies for authors of musical works in the Netherlands (Buma/Stemra), Denmark (KODA) and France (SACEM) elaborated standards for their members under which the CC-NC-licenses could be used for works already exercised by the CMOs.

1. The Netherlands: Buma/Stemra

- 28 The first European collecting society experimenting whether collective rights management and individual licensing can be combined was Buma/Stemra in the Netherlands¹⁵. The pilot started on the 23rd of August 2007 and was initially planned to last for one year, but had been extended repeatedly.
- 29 The pilot project enabled members of the collecting society for the first time to use CCPLs while having works exercised by the CMO. The focus on CC-NC-licenses in the project was justified with the argument that Buma/Stemra's main aim was to generate revenue for its members and therefore could only allow free non-commercial uses of the works. As long as authors want to use CCPLs to promote themselves, non-commercial licenses would have to be sufficient, so that Buma/Stemra could continue to collect royalties for commercial uses. In practice¹⁶, authors had to ensure that they were the only ones having a right in the works that shall be licensed with a CC-NC-license or at least they had permission from everyone having rights in the works to use such licenses. After accepting the conditions of the pilot on the website of Buma/Stemra, they had to indicate what particular works they intended to publish under a CC-NC-license. Right after that, the authors could generate license buttons that marked the works as licensed under the

conditions of the pilot. This meant that authors at first had to assign their rights to Buma/Stemra and afterwards, the non-commercial rights were licensed back to them.

- 30 To guarantee the success of the experiment, Buma/Stemra and Creative Commons had to define what uses shall be regarded as commercial and what uses non-commercial, as the CCPLs did not comprise a sufficiently clear definition. While Buma/Stemra argued to have just a small amount of uses regarded as non-commercial, Creative Commons wanted to preserve already existing practices and a wider interpretation.¹⁷ In the end, they agreed on a very strict interpretation of what uses are deemed to be non-commercial.
- 31 First, every use of a work by a for-profit institutions was qualified as 'commercial use'. Furthermore, distributing or publicly performing or making the work available online against payment or other financial compensation was qualified as 'commercial use' as well. Financial compensation in this respect included not only making profit out of the work, but the use of the work in combination with ads, publicity actions or any other similar activity intended to generate income for the user or a third party. Beyond this already very strict definition the distribution and public performance of a work were seen as commercial too, as well as having public as well as private broadcasting organisations make the work available online and using the work in hotel and catering establishments, work, sales and retail spaces. This even included the use of the work in churches, schools and dancing schools and welfare institutions. For these uses separate licenses were needed.
- 32 As this definition had the advantage of being very precise and much more specific than the definition contained in the CCPLs, it was also more restrictive and therefore left the experiment with little room to develop. It is no surprise that the actual use of the pilot was rather disappointing. At the end of 2009, only 30 authors wanted a re-transfer or their non-commercial rights for in total 100 works. This showed in particular that the definition of the non-commercial use was far too strict.¹⁸ While nearly 25% of the Buma/Stemra members showed interest in taking part in the pilot, less than 1% finally joined¹⁹. Further surveys showed that the rightholders were desperate to gain more flexibility, especially when it comes to promotional use of their works, so that in general, there was a fundamental need of the pilot. But although the pilot showed that collecting societies can deal in with CCPLs in their practice, the limitations of the non-commercial uses were so strict that the consequence was a "mismatch between the way non-commercial use is framed in the definition developed for the pilot and forms of use that are

considered to be non-commercial among Buma/Stemra members”²⁰.

- 33 The experiment has now been converted into a structural arrangement²¹, so that Buma/Stemra allows the licensing of works with CC-NC-licenses and regards the following uses as commercial:
- 34 Distribution to the public, performing or making available the work online by broadcasters, the use of the work in catering matters, employment, sales and retail spaces and the use by organizations in both the profit and not for profit industry that use music in or next to the performance of their duties, such as churches, (dance) schools, institutions for social work, and the like²². This definition is not as strict as in the pilot and gives the rightholders more flexibility.

2. Denmark: KODA

- 35 In 2008, the danish CMO for musical rights, KODA, started another experiment. The KODA agreed to collect the royalties for the commercial use of a music album (e.g. radio broadcasting) while the album has been licensed with the danish CC-BY-NC-ND 2.5dk-licence²³. Different from the dutch pilot, this experiment was not limited in time and showed that collecting societies can deal with CCPLs in practice. Defining the non-commercial use of a work, KODA and CC Denmark agreed on guidelines. A licensee who wants to use the work under the terms of CC-NC-license has no right to exercise any of the rights in a way that is primarily directed toward commercial advantage or private monetary compensation. This definition was more flexible and let the experiment develop much more.

3. France: SACEM

- 36 The latest experiment was started in France by the SACEM in January 2012. For at least 18 month, its members were given the opportunity to license their works with CC-NC-licenses, and even single works could be licensed alternatively. For this purpose, a clarifying specification of what uses are deemed to be commercial was drafted. The following uses have to be regarded commercial under the specification²⁴:

- any use of the work by a for-profit entity;
- any use of the work giving rise to any compensation, whether financial or other, whatever the form, the reason and the motive and whoever the beneficiary;
- any use of the work in order to promote or in connection with the promotion of products

or services whatsoever and for the benefit of whomever;

- any use of the work by broadcasting entities as well as in workplaces, stores and retail spaces;
- any use of the work in restaurants, bars, cafes, concert venues and other hospitality establishments;
- any use of the work by an entity as part or in connection with revenue generating activities;
- any exchange of the licensed work for other copyrighted works by means of digital file-sharing or otherwise but only when there are advertising or sponsorship receipts, whether direct or indirect, or payment of any kind in connection with the exchange of copyrighted works.

- 37 The restrictions made in the pilot make it clear how strict the definition of the non-commercial use can be, in this experiment not many scenarios were left in which the use was non-commercial. Moreover, the pilot was limited in time. In practice rightholders had to assign their rights to the SACEM first and the non-commercial rights licensed back to them afterwards, so that congruent to the Buma/Stemra pilot the concept of a “non-commercial license back” was seen as the most practicable solution.

4. Conclusion of the pilot experiments

- 38 Considering the results of the pilots projects, some first conclusions may be drawn. It became clear during the projects that authors seek for more flexibility in the rights management of their works, and that collecting societies can provide this flexibility and deal with open content licenses like the CC-NC-licenses if they are willing to adjust their system and practice. However, the projects have also shown that only a small number of members participated in the pilots because of various reasons. On one hand, the definition of “non-commercial use” was strict in all observed pilot projects. This led to a narrow set of application scenarios for the CC-NC-licenses, so that members did not have much flexibility in the end. On the other hand, many of the authors interested in non-commercial licenses are not organized in CMOs anyway. Therefore the total number of authors using non-commercial licenses and yet being represented by CMOs was small. But even though the pilots were not successful in the sense of a massive use in practice, the experiences gathered with the projects may still be useful for the better understanding of Art. 5 para. 3 CM Directive and its implementation into national law.

IV. The legislative procedure: How the provision got into the directive

39 The Commission proposal for a directive of the European parliament and of the Council on collective management of copyright and related rights and multi-territorial licensing of rights in musical works for online uses in the internal market was published in July 2012²⁵. In the proposal it was emphasized in Recital 9 that the “directive should not prejudice the possibilities of rightholders to manage their rights individually, including for non-commercial uses”²⁶ However, the initial proposal did not comprise a black-letter rule in this regard. The European Economic and Social Committee opinion from the 12th of December 2012²⁷ and the working document of the Committee for Legal Affairs from the 4th of March 2013²⁸ changed nothing with regard to the provision about non-commercial use. The first official document expressing the right to grant licences for non-commercial uses in a rule was the draft of an opinion of the CULT committee on the 28th of March 2013²⁹. In amendment 29, a proposal for a new Art. 5 para. 2 a was made that stated “rightholders shall have the right to grant free licences for the non-commercial use of their works and rights. In this case, rightholders shall inform in due time the collective management organisations authorised to manage the rights of such works that such a free license has been granted.”³⁰ The provision was substantiated with the argument that the management of works should be more flexible for rightholders and they shall have the right to decide if they want to use non-commercial licenses without jeopardising their membership to the CMO they are in. The draft report of the Committee on Legal Affairs³¹ of the 30th of April 2013 however proposed no such amendment. On the 30th of May 2013, the Council debated about the directive in its 3242nd meeting³² before the Committee on Legal Affairs published its report on the proposal on the 4th of October 2013³³, in which again, the new Article 5 para. 2 a was taken up with a modified wording, by which the “rightholders shall have the right to grant licences for the non-commercial uses of the rights, categories of rights or types of works and other subject matter of their choice. Collective management organisations shall inform their members of this right and of the conditions attaching thereto.”³⁴ Recital 9 was not changed. When representatives of the European Parliament and the Council of ministers agreed on a compromise on the 4th of November 2013³⁵, they agreed that rightholders will be able to grant licenses for non-commercial uses as well. In the following vote on the final version of the directive³⁶, Recital 9 was expanded to the final wording of then later Recital 19 subparagraph 3³⁷. It was stated that “as far as non-commercial uses are concerned, Member States should provide that collective management organisations take the necessary steps to ensure that

their rightholders can exercise the right to grant licences for such uses. Such steps should include, inter alia, a decision by the collective management organisation on the conditions attached to the exercise of that right as well as the provision to their members of information on those conditions.” Furthermore, Article 5 para. 2a. was affirmed, so that “rightholders shall have the right to grant licences for the non-commercial uses of the rights, categories of rights or types of works and other subject matter of their choice”. In a last opinion of the Committee on Legal Affairs from the 6th of December 2013, only the legal basis of the directive was verified³⁸. While the Commission proposed Articles 50 para. 2 lit. g, 53 and 62 of the Treaty on the Functioning of the European Union (TFEU) as the legal basis, the Committee on legal Affairs came to the result that the correct legal basis can rather be found Articles 50 para. 1, 53 para.1 and 62 TFEU.

40 On the 4th of February, the European Parliament adopted the directive, now with Recital 9 placed in Recital 19 and Art. 5 para. 2a shifted to Art. 5 para. 3³⁹. On the 20th of February 2014, the Council of the European Union adopted the directive and 6 days later, at the 26th of February 2014, the directive was signed by the President of the EP and by the President of the Council. The directive was published in the Official Journal of the European union on the 20th of March 2014⁴⁰.

V. The implementation in national law: interpretation and consequences of the provision

41 Art. 5 para. 3 CM directive has to be brought into force by the 10th of April 2016. Until then, the Member States must provide a suitable implementation that will suffice the requirements the directive established. Unfortunately, Art. 5 para. 3 does not clarify the technicalities of the author’s right to grant non-commercial licenses. Is Art. 5 para. 3 CM directive an entitlement that right holders can enforce? What uses shall exactly be „non-commercial“? An adequate distinction between non-commercial and commercial uses is necessary for legal certainty. Closely related is the question who should be responsible for this distinction and has the prerogative of interpretation? Is there a need to design new non-commercial licenses, or are existing license models suitable? How should collecting societies implement the regulation in their practice?

1. The meaning of non-commercial and the prerogative of interpretation

- 42 The CM directive makes clear in Recital 19 subpara. 3 sentence 2 that CMOs should allow flexibility to all rightholders, and therefore the Member States have to „provide that collective management organisations take the necessary steps to ensure that their rightholders can exercise the right to grant licences“ for non-commercial uses⁴¹. Therefore, CMOs should decide „on the conditions attached to the exercise of that right as well as the provision to their members of information on those conditions“⁴². It is a debatable point what this exactly means. It could lead to the interpretation that collecting societies have the prerogative of interpretation over the term „non-commercial“, so that they decide how far the scope of the directive regulation actually is⁴³, and with upcoming litigations, the courts and in the end the European Court of Justice (ECJ) have to determine what uses shall be considered non-commercial. A different approach would be that the Member States define the term „non-commercial“ in the implementing provisions, so that the scope of the provision would be defined by (national) law⁴⁴. Regarding this second approach, one should keep in mind that the directive does not concede a leeway for the Member States to define the term „non-commercial“. Rather, “non-commercial” must be interpreted as a European legal term that finally has to be specified by the ECJ based upon autonomous, European criteria. Would a national legislator specify the term rather than just adopt it from the directive, it would risk a violation of European law. A more specific definition on the national level is therefore no solution.
- 43 But as the meaning of the term is naturally of high importance for the legal practice, the term has to be filled with meaning. Having in mind that the notion “non-commercial” is a legal term that has to be defined by courts, it still seems necessary to give CMOs the right to implement Art. 5 para. 3 CM directive through individual and tailor-made terms and conditions as expressed by Recital 19. Yet, Member States must have the right to exercise control of the terms and conditions of CMOs and should not be under an obligation to enforce terms and conditions which are based on a notion of “non-commercial” incompatible with the legal standards defined by the Directive and the implementing national provisions. This is not least the case because the directive does not implement a status of self-regulation of the CMOs in which the actions of the CMOs cannot be reviewed. In spite of the fact that the directive gives the CMOs in Recital 19 CM directive the right to define the conditions attached to the exercise of the right given by Art. 5 para. 3 CM directive, the provision of self-regulation had to be much more clear⁴⁵.
- 44 Following this approach, CMOs as well as the legislators have to consider various aspects in their proceedings.
- 45 At first, the term „non-commercial use“ is not completely new, but was used before in several European⁴⁶ and German⁴⁷ regulations about the limitations of the copyright law, and courts have dealt with this term before. The Bundesgerichtshof for example ruled that acts of exploitation are always non-commercial when they are not intended to realize profit⁴⁸. Determining the content of „non-commercial“, this prior use of the term should definitely be considered⁴⁹.
- 46 Secondly, it seems to make sense to streamline the concept with already existing licenses. As the authors shall have the right to grant licenses for non-commercial uses, such licenses are needed to establish the right in practice. Theoretically, for every type of work, type of use and for every member state, different licenses could be designed to help the regulation come into force. But this would lead to confusion over the many different licenses without securing legal certainty. Hence, it is much more reasonable to use already existing, international and established licenses like the CC-NC-licenses. These licenses provide for a definition of the term „non-commercial“, so that they could indeed make distinctions for what uses shall be considered non-commercial. According to the CC Non-Commercial 4.0 International Public License, non-commercial „means not primarily intended for or directed towards commercial advantage or monetary compensation. For purposes of this Public License, the exchange of the Licensed Material for other material subject to Copyright and Similar Rights by digital file-sharing or similar means is NonCommercial provided there is no payment of monetary compensation in connection with the exchange.“
- 47 Of course, these remarks have to be interpreted as well, and there is struggle about the scope of this definition. Within the CC community, there is a vivid debate over the interpretation of “not primarily intended” and “purposes of this Public License”. Whereas CMOs have an interest in interpreting the licenses as strict as possible and by that keeping most of the uses commercial and bringing in revenues, it is important to keep in mind that the purpose of the directive was to grant the rightholders more flexibility.
- 48 The meaning of “non-commercial” in regard to the CC-NC-licenses has been litigated in German courts. The LG Köln ruled in one of its decisions that the use of a picture on a website by a public broadcasting company is a commercial use, because only the private use of a work should be considered non-commercial⁵⁰. The LG Köln interpreted the term of

„non-commercial“ very strict. Based on this opinion, nearly every use would be commercial, and only the use of a natural private person in his private sphere would be regarded as non-commercial. This legal opinion did not only contradict with the case law of the Bundesgerichtshof to the non-commercial use in § 52a UrhG, it was far too narrow in this particular issue as well and was therefore corrected in the appeals procedure by the OLG Köln⁵¹. The appeal court applied the German statutory provisions for general terms⁵². It was sufficient that the public broadcaster made no direct profit from the picture, because uncertain wording of a standard clause like the CC-license clause is to be interpreted against the party that provided the terms⁵³. This means that if there is no clear answer whether or not the NC clause covers public undertakings (defendant was Deutschlandradio, a public broadcaster) it had to be interpreted in the widest way possible favouring the defendant. Hence, “non-commercial” in a wide sense does include public broadcasters. This decision is far more balanced and should be a point of reference for the collecting societies when they have to communicate what uses shall be non-commercial. Further criteria may be taken from the decision of the Bundesgerichtshof about non-commercial uses in the referring to § 52a UrhG⁵⁴ should be regarded, so that acts of exploitation should always be non-commercial when they are not intended to realize profit. The Bundesgerichtshof applied this test in a case of a copyright limitation, which are often subject to strict interpretation, whereas Art. 5 para. 3 CM Directive shall save the rightholders original rights and therefore has to be interpreted more widely.

- 49 Finally one should take into account the experiences from the pilot projects in the Netherlands, Denmark and France. The experience from the projects has shown that a too narrow concept of “non-commercial licenses” may severely endanger the effectiveness of such a rule. It is not very likely that the European legislator wanted to implement a provision that is with very little practical use for authors.

2. Enforcement of Art. 5 par. 3

- 50 Every right is only valuable as far as it can be enforced. Looking at the exact wording of Art. 5 para. 3 of the collective management directive, the rightholders shall have the right to grant licenses for non-commercial uses. Technically speaking, rightholders who have no rights managed by a CMO already are free to use non-commercial licenses; the regulation therefore only makes sense reading it as “rightholders shall have the right to grant licences for non-commercial uses of any rights, categories of rights or types of works and other subject-matter that they may choose and at the same time have a collecting society grant licenses for commercial

uses.” But this still leaves the question open how the author may enforce Art. 5 para. 3 CM directive against a CMO. Given that the main aim of the regulation was to give authors the opportunity to distinguish between commercial and non-commercial uses and provide them with a more flexible way of rights management, Art 5 para. 3 CM directive cannot be interpreted as a mere guideline. Instead Member States are obliged to provide enforcement mechanisms, so that rightholders have an effective tool against the collecting society responsible for the management of his type of works. If necessary, this right has to be enforceable before the courts to ensure that the purpose of the directive is valid to the maximum extent possible. One possible scenario could be that an author may bring an action against a CMO which denies to represent this author because he or she has chosen to license a work for non-commercial uses. Such denial would be in conflict with Art. 5 para. 2 (2) CM Directive. In a second scenario it could be the CMO which sues a user, e.g. a public radio station, that makes use of work that has been licensed under a non-commercial license. In this scenario the court would have to decide whether the user could acquire the necessary rights under the non-commercial license even though the author has transferred some or all other rights to a CMO. A possible third enforcement mechanism could be provided by the competent authorities of the respective Member State which has to supervise the CMO’s compliance with the national implementation of the Directive under Art. 36. As a fourth possible enforcement measure, CMOs terms and conditions for the non-commercial use of works could be controlled as standard terms on the basis of individual or collective claims.

3. The practical implementation by the collective management organisations

- 51 The practical implementation of Art. 5 para. 3 CM directive is of high relevance. What may appear as technicalities at first glance, has decisive influence for the effective implementation of Art. 5 para. 3 CM directive. In the process it is important that Art. 5 para. 3 CM directive does not refer to statutory remuneration claims as part of the copyright limitations permitted by the law⁵⁵. The implementation is therefore only needed in cases of individually licensed uses. Another important but technical issue concerns the rights the author must have to grant non-commercial licenses to third parties. The basic idea of Art. 5 para. 3 CM directive is that the author or other rightholder should transfer all rights in the work to a CMO but keep the rights necessary to grant non-exclusive licenses. A second scenario would be that the CMO has all exclusive rights but transfers back the necessary rights to the author so that he or she can allow non-commercial

uses. Is it necessary that the author or rightholder has the exclusive right for the granting of non-exclusive licenses to third parties covering the non-commercial use? Or is it sufficient that the author is entitled with an indefinite number of non-exclusive licenses that can be transferred to third parties? Or is it better to grant-back a non-exclusive license with the right to grant sublicenses to third parties?⁵⁶ Who shall bear the legal risk that such a construction may at the end be insufficient to provide users with a safe legal basis? Giving the clear expression of the legislative goal in Recital 19 according to which CMOs should allow authors “to exercise the rights related to those choices as easily as possible” it is the preferable solution to give the author and not the CMO the exclusive right for non-commercial uses.

52 A possible approach would be the one of the Cultural Commons Collecting Society (C3S), a new-founded European companionship with the aim to build a collecting society for musical works⁵⁷. The C3S wants to provide the opportunity to have single works managed by the collecting society, the rightholder would then have to inform the C3S, which work should be managed. Further on, for every single work the rightholder should be able to determine what licenses shall be granted, varying from the classical “all rights reserved” to non-commercial CCPLs. The rightholder shall additionally have the decision, for which types of use the C3S is responsible and what types of use shall be managed individually. This could guarantee the most flexibility for the rightholders and make it possible to grant licences for non-commercial uses of any rights, categories of rights or types of works and other subject-matter that they may choose.

4. Privileged Persons under Art. 5 para. 3 CM directive

53 Under Art. 5 para. “rightholders” shall have the right to grant licenses for non-commercial uses. The notion “rightholder” is defined in Art. 3 lit. c) as “any person or entity, other than a collective management organisation, that holds a copyright or related right or, under an agreement for the exploitation of rights or by law, is entitled to a share of the rights revenue”. Even though the pilot projects have mainly targeted authors as potential licensors for non-commercial licenses, the provision of Art. 5 para. 3 is broader in its scope and allows also copyright owners or authors of (exclusive) rights to make use of the privilege. However, one should keep in mind that Art. 5 para. 3 may only invoked by those rightholders who have a sufficient legal position to grant non-commercial licenses. This is certainly the case for copyright owners but must not apply to rightholders who are owners of simple licenses. If a licensee can grant non-commercial licenses or

sublicenses to third parties is a question covered by the law of each country for which protections is sought.⁵⁸ Therefore the answer may vary from state to state according to the national copyright legislation. Having said this, the notion of rightholder in the sense of Art. 5 para. 3 must be interpreted more restrictively than suggested by Art. 3 lit. c).

C. Summary and conclusion

54 Art. 5 para. 3 CM directive opens a window of opportunity for alternative license schemes. It enables authors and other rightholders to license works to a CMO and at the same time allow third parties to use their works under the terms of a non-commercial license. As simple as the provision is drafted, as many difficult legal questions will have to be solved on the way to its efficient implementation. The Directive makes clear that CMOs are called in the first place to take the necessary steps to ensure that rightholders can exercise their rights under Art. 5 para. 3. However, those implementing rules should not endanger or circumvent the legislative aims and should not impose the legal risks only on the author. At the end, national courts and the Court of Justice of the European Union will have to define what a non-commercial license is, what rights must remain with or be transferred back to the author or other rightholder, how the provision can be enforced etc. To prevent legal conflicts about these questions, it would be desirable if CMOs and rightholders would negotiate standard terms to be used for the implementation of the new provision. The experience gathered in the pilot projects may be useful in this regard. At the end, success or failure of Art. 5 para. 3 will very much depend on whether authors and other rightholders make active use of their privilege.

- 1 Directive 2014/26/EU of the European Parliament and of the Council of 26 February 2014 on collective management of copyright and related rights and multi-territorial licensing of rights in musical works for online use in the internal market.
- 2 <http://www.vgwort.de/teilnahmemoeglichkeiten/bezugsberechtigte.html> (last downloaded 26.02.2015).
- 3 The same has already been pointed out by Metzger, Die urheberrechtliche Gestaltung von Open Access Repositorien, Gutachten im Auftrag des Projekts IUWIS (Infrastruktur für Wissenschaft und Bildung in Sachen Urheberrecht), downloadable on <http://www.iuwis.de/sites/default/files/iuwis-gutachten-metzger.pdf> (last downloaded 26.02.2015).
- 4 See p. 4 of the annual report 2013, downloadable on http://www.vgwort.de/fileadmin/pdf/geschaeftsberichte/Geschaeftsbericht_2013.pdf (last downloaded 26.02.2015).
- 5 At the Moment, there are just about 397 members, including 326 authors and 71 publishing houses: <http://www.autorenwelt.de/aktuelles/branchennews/meldung-22052014-vg-wort> last downloaded 26.02.2015.
- 6 http://www.telemedicus.info/uploads/Dokumente/Stellungnahme_GEMA_CreativeCommons-01-2012.pdf (last downloaded 26.02.2015).

- 7 See the chapter on the pilot experiments on how other European music CMOs have dealt with this problem in bilateral arrangement with the Creative Commons Organisation.
- 8 Another question is who has the prerogative of interpretation, see below.
- 9 This might be different for other markets, e.g. literature; see below for the differences between these sectors as well.
- 10 In fact, this has been different. The GEMA provided this option before, but rightholders had to license – and pay – their own works if they wanted to use them. Only afterwards these payments were cleared when the revenues were distributed.
- 11 [Http://www.ifpi.org/facts-and-stats.php](http://www.ifpi.org/facts-and-stats.php) (last downloaded 26.02.2015).
- 12 Universal Music Group: 36,7%, Sony Music Entertainment: 22,4%, Warner Music Group: 15,8%.
- 13 Informa (Music & Copyright), Marktanteile der größten Plattenfirmen weltweit in den Jahren 2011 bis 2013, Statista, downloadable on <http://de.statista.com/statistik/daten/studie/224077/umfrage/marktanteile-der-groessten-plattenfirmen-weltweit/> (last downloaded 26.02.2015).
- 14 The exclusive assignment of rights to a CMO can be found throughout the world, except for the United States of America. Collective rights management organisations working there are banned from obtaining exclusive assignments in their administration agreements. Thus, members of collecting societies in the US are free to license their works with individual contracts that complete the exercising by the CMO, which includes CCPLs as well. This perception is based on antitrust law, see the consent decree *U.S. v. ASCAP*, 1940-43 Trade Cas. (CCH) 56, 104 (S.D.N.Y. 1941) as well as *U.S. v. BMI*, 1940-43 Trade Cas. (CCH) 56,096 (E.D. Wis. 1941). Further on this Goldmann, Kollektive Wahrnehmung musikalischer Rechte in den USA und Deutschland, p. 142 ff.; Goldmann, GRUR Int 2001, 420 [426 f.]; Sobel, 3 Loyola Los Angeles Entertainment Law Journal, S. 1, 6 (1983).
- 15 For this and the following see the „Evaluation of the Creative Commons Buma/Stemra pilot“ by Paul Keller and Andy Zondervan from the 27th of August 2010, downloadable on http://www.creativecommons.nl/downloads/100824evaluation_pilot_en.pdf (last downloaded 26.02.2015).
- 16 The practical realization of the pilot is documented in the „Evaluation of the Creative Commons Buma/Stemra pilot“ by Paul Keller and Andy Zondervan from the 27th of August 2010, p. 5f.
- 17 „Evaluation of the Creative Commons Buma/Stemra pilot“ by Paul Keller and Andy Zondervan from the 27th of August 2010, p. 5.
- 18 *Idem*, p. 7.
- 19 *Idem*, p. 9.
- 20 *Idem*, p. 12.
- 21 Further information about the structural arrangement can be found on <http://creativecommons.nl/flexibel-rechtenbeheer-met-bumastemra/> (last downloaded 26.02.2015).
- 22 [Http://creativecommons.nl/flexibel-rechtenbeheer-met-bumastemra/](http://creativecommons.nl/flexibel-rechtenbeheer-met-bumastemra/) (last downloaded 26.02.2015).
- 23 The license text can be downloaded at <http://creativecommons.org/licenses/by-nc-nd/2.5/dk/legalcode> (last downloaded 26.02.2015).
- 24 The definition can be found on <http://www.sacem.fr/cms/site/en/home/creators-publishers/creative-commons-engl/sacem-creative-commons-pilot> (last downloaded 26.02.2015).
- 25 COM/2012/0372 final - 2012/0180 (COD), downloadable on <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2012:0372:FIN> (last downloaded 26.02.2015).
- 26 Recital 9 of the final proposal COM/2012/0372 final - 2012/0180 (COD).
- 27 282013/C 44/18, downloadable on <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52012AE0372&from=DE> (last downloaded 26.02.2015).
- 28 Downloadable on <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+COMPARL+PE-502.061+01+DOC+PDF+V0//DE&language=DE> (last downloaded 26.02.2015).
- 29 Draft opinion of the Committee on Culture and Education for the Committee on Legal Affairs on the proposal for a directive of the European Parliament and of the Council on collective management of copyright and related rights and multi-territorial licensing of rights in musical works for online uses in the internal market (COM(2012)0372 - C7-0183/2012 - 2012/0180(COD)), downloadable on http://www.europarl.europa.eu/meetdocs/2009_2014/documents/cult/pa/931/931731/931731en.pdf (last downloaded 26.02.2015).
- 30 P. 29 of the draft opinion of the CULT committee.
- 31 Draft report on the proposal for a directive of the European Parliament and of the Council on collective management of copyright and related rights and multi-territorial licensing of rights in musical works for online uses in the internal market (COM(2012)0372 - C7-0183/2012 - 2012/0180(COD)), downloadable on <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML%2BCOMPARL%2BPE-510.562%2B01%2BDOC%2BPDF%2BV0//EN> (last downloaded 26.02.2015).
- 32 Documented on <http://www.europarl.europa.eu/oeil/popups/summary.do?id=1272239&t=e&l=en> (last downloaded 26.02.2015).
- 33 Report on the proposal for a directive of the European Parliament and of the Council on collective management of copyright and related rights and multi-territorial licensing of rights in musical works for online uses in the internal market (COM(2012)0372 - C7-0183/2012 - 2012/0180(COD)), downloadable on <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+REPORT+A7-2013-0281+0+DOC+XML+V0//EN> (last downloaded 26.02.2015).
- 34 Amendment 54 of the report on the proposal by the Committee on Legal Affairs.
- 35 Documented on <http://www.europarl.europa.eu/news/en/news-room/content/20131105IPR23815/html/Collective-management-of-copyright-EP-and-Council-strike-a-deal> (last downloaded 26.02.2015).
- 36 Downloadable on <https://netzpoltik.org/wp-upload/EU-RL-VerwG-131126.pdf> (last downloaded on 26.02.2015).
- 37 P. 11f. of the voted version, downloadable on <https://netzpoltik.org/wp-upload/EU-RL-VerwG-131126.pdf> (last downloaded on 26.02.2015).
- 38 Opinion on the legal basis of the for a Directive of the European Parliament and of the Council on collective management of copyright and related rights in musical works for online uses in the internal market [COM(2012)0372], downloadable on <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2F%2FEP%2F%2FNONSGML%2BCOMPARL%2BPE-524.630%2B01%2BDOC%2BPDF%2BV0%2F%2FEN> (last downloaded 26.02.2015).
- 39 Documented on http://europa.eu/rapid/press-release_MEMO-14-80_en.htm?locale=en and <http://www.europarl.europa.eu/news/en/news-room/content/20140203IPR34615/html/Copyright-cross-border-licences-for-online-music-services> (both last downloaded 26.02.2015).
- 40 Official Journal L84/72 - 96.

- 41 Recital 19 subparagraph 3 sentence 2 of the collective management directive.
- 42 Recital 19 subparagraph 3 sentence 3 of the collective management directive.
- 43 Stellungnahmen der Deutschen Vereinigung für gewerblichen Rechtsschutz und Urheberrecht e.V. (GRUR), GEMA und VG Bild-Kunst gegenüber dem Bundesministerium der Justiz und für Verbraucherschutz zur Umsetzung der Richtlinie 2014/26/EU des Europäischen Parlaments und des Rates vom 26. Februar 2014 über die kollektive Wahrnehmung von Urheber- und verwandten Schutzrechten und die Vergabe von Mehrgebietslizenzen für Rechte an Musikwerken für die Online-Nutzung im Binnenmarkt („VG-Richtlinie“) sowie zu weiteren Änderungen des Urheberwahrnehmungsgesetzes.
- 44 Stellungnahme des Verbraucherzentrale Bundesverbandes gegenüber dem Bundesministerium der Justiz und für Verbraucherschutz zur Umsetzung der Richtlinie 2014/26/EU des Europäischen Parlaments und des Rates vom 26. Februar 2014 über die kollektive Wahrnehmung von Urheber- und verwandten Schutzrechten und die Vergabe von Mehrgebietslizenzen für Rechte an Musikwerken für die Online-Nutzung im Binnenmarkt („VG-Richtlinie“) sowie zu weiteren Änderungen des Urheberwahrnehmungsgesetzes.
- 45 Examples for self-regulation can be found in other European directives, e.g. in Art. 4 para. 7 in conjunction with Recital 44 of the Directive 2010/13/EU of the European Parliament and of the Council of 10 March 2010 on the coordination of certain provisions laid down by law, regulation or administrative action in Member States concerning the provision of audiovisual media services (Audiovisual Media Services Directive) and in Art. 27 Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data.
- 46 Art. 5 par. 2 lit. c, par. 3 lit. a, b of the directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society (InfoSoc-directive).
- 47 § 52a UrhG.
- 48 BGH GRUR 2014, 549 – Meilensteine der Psychologie.
- 49 See below on how the interpretation of the term has to change in different situations of the law.
- 50 LG Köln MMR 2014, 478.
- 51 OLG Köln MIR 2014, Dok. 121.
- 52 OLG Köln MIR 2014, Dok. 121, S. 8.
- 53 See the ambiguity rule in § 305c BGB, OLG Köln MIR 2014, Dok. 121, S. 10.
- 54 BGH GRUR 2014, 549 – Meilensteine der Psychologie.
- 55 For these uses no licenses are needed, as they are normally already allowed by the law. Additionally, a fair compensation is mandatory in most cases, compare Art. 5 par. 2 lit a, b, par. 5 of the directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society (InfoSoc-directive).
- 56 This has already been tested in the pilot experiments of Buma/Stemra and SACEM and would mean that rightholders continue to assign all-embracing exclusive rights to their CMO. If a rightholder later wants to grant a non-commercial license, he or she has to apply for the retransfer of a simple right for the non-commercial use that is capable of granting a sublicense.
- 57 The C3S is still working on an administration agreement and is not approved by the law as a collecting society, so that rightholders do not have the opportunity to have their rights managed by the C3S at the moment.
- 58 See Art. 3:301 CLIP-Principles, see also the comments with further comparative references European Max Plank Group on Conflict of Laws in Intellectual Property (eds.), Conflict of Laws in Intellectual Property: The CLIP Principles and Commentary, Oxford University Press, 2013..

Digital First Sale Doctrine Ante Portas

Exhaustion in the Online Environment

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Abstract: The purpose of the article is to provide first a doctrinal summary of the concept, rules and policy of exhaustion, first, on the international and EU level, and, later, under the law of the United States. Based upon this introduction, the paper turns to the analysis of the doctrine by the pioneer court decisions handed over in the UsedSoft, ReDigi, the German e-book/audio book cases, and the pending Tom Kabinet case from the Netherlands. Questions related to the licence versus sale dichotomy; the so-called umbrella solution; the “new copy theory”, migration of digital copies via the internet; the forward-and-delete technology; the issue of *lex specialis* and the theory of functional equivalence are covered later on. The author of the present article stresses that the answers given by the respective

judges of the referred cases are not the final stop in the discussion. The UsedSoft preliminary ruling and the subsequent German domestic decisions highlight a special treatment for computer programs. On the other hand, the refusal of digital exhaustion in the ReDigi and the audio book/e-book cases might be in accordance with the present wording of copyright law; however, they do not necessarily reflect the proper trends of our ages. The paper takes the position that the need for digital exhaustion is constantly growing in society and amongst businesses. Indeed, there are reasonable arguments in favour of equalizing the resale of works sold in tangible and intangible format. Consequently, the paper urges the reconsideration of the norms on exhaustion on the international and EU level.

Keywords: Digital Exhaustion; Umbrella Solution; Usedsoft; ReDigi; WCT/WPPT; CJEU

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Recommended citation: Peter Mezei, Digital First Sale Doctrine Ante Portas: Exhaustion in the Online Environment, 6 (2015) JIPITEC 23, para 1.

A. Introduction

- 1 National legislators were led by their own domestic interests when creating the original set of their copyright systems.¹ It has been, however, universally accepted that the interests of the right holders shall be limited in some ways. It turned out to be necessary to balance the interests of the right holders and the society (consumers), further – and most recently – the intermediaries (internet access providers, search engines, hosting service providers, aggregators etc.), in order to guarantee the effective operation of this territory of law and businesses related thereto.²
- 2 The exclusivity of rights has been broken by several legal instruments. Such an example is the territoriality,³ the copyright term,⁴ the limits of alienability of economic rights,⁵ the statutory⁶ and compulsory licences,⁷ free use⁸ or fair use⁹/fair dealing.¹⁰ Further, several types of works are *per se* exempted from copyright protection.¹¹ Exhaustion belongs to the above list of limitations.
- 3 One of the exclusive rights granted to right holders is the right of distribution. Under distribution, we traditionally mean the transfer of the ownership of the original work or its copy to the acquirer through

sale, gift or barter.¹² This exclusivity is broken by the doctrine of exhaustion that was developed parallel in the U.S. American and German copyright law around the turn of the 19th and 20th centuries.¹³

- 4 Under the theory of exhaustion, the right holders shall tolerate any future – even for-profit – distribution of the original or the copy of their protected subject matter, where the said content was lawfully put into circulation with their consent (that is, by them or by any other authorized person¹⁴) through sale or any other form of transfer of ownership.¹⁵ Consequently, since the doctrine of exhaustion excludes the right holder's control of the downstream commerce, everyone might freely dispose of the property of their unused books, CDs, paintings, etc. This legal instrument serves as the legal basis of second-hand stores, including online portals like eBay. Furthermore – in some countries, like in the United States of America – this doctrine allows for the public lending by public libraries.
- 5 Without the principle of exhaustion, the right holders would be allowed to control each and every distribution of each and every physical object incorporating their copyright protected expression, and that could easily lead to anticompetitive results.¹⁶ Such a monopoly shall not be acceptable for several reasons. First, copyright statutes have been heavily influenced by the idea of the termination of monopolies granted to publishers. In order to guarantee this goal, both exclusive rights and their limitations have been artificially set by law and their balance is constantly double-checked by legislators, judges and academia. Furthermore, copyrights do not amount to property over physical goods.¹⁷ Indeed, lawfully acquired goods shall be unconditionally controlled by their owners,¹⁸ unlike intangible copyrights existing in relation to these goods (data carriers). The U.S. Copyright Act phrases that perfectly: “[o]wnership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied. Transfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, does not in and of itself convey any rights in the copyrighted work embodied in the object; nor, in the absence of an agreement, does transfer of ownership of a copyright or of any exclusive rights under a copyright convey property rights in any material object.”¹⁹ *Exhaustion thus aims to balance property rights over goods and copyrights over intellectual creations;²⁰ and ultimately the free flow of goods.*²¹
- 6 Since exhaustion is solely a limitation of the distribution right, the right holder deserves fair remuneration for any other use that is not bound to the transfer of any fixed copy or that is provided as a service.²² For example, users shall pay for each and every performance, display, broadcasting, transmission or making available to the public, as well as rental or lending of protected subject matter. In the above instances, exhaustion is excluded since no copy was sold, and no ownership was transferred to the user after the first lawful use of the said subject matter. Similarly, the application of exhaustion is limited by the fact that the use of any tangible copy is bound to the physical location of that piece of work, unlike any use offered as a service. To use a simple example: a book might be read by one person at a given time. However, the performance of the literary work might be broadcasted to multiple people at the same time and may be repeated at any time.²³
- 7 It is cliché, but it is a matter of fact that legislators and right holders face significant challenges due to the constant development of technology.²⁴ During the 20th century, movie theatres offered a brand new kind of experience for the people.²⁵ Jukeboxes and similar machines allowed for a great variety of public consumption of music.²⁶ Radio and television, as well as other devices (like the portable walkman for the music industry,²⁷ and video tape recorders for the video industry²⁸), revolutionized the consumption of copyrighted contents in private sphere. Photocopying and photographing have come into general use, as well.²⁹ The standardization of digital technologies (for example Compact Disc [1983] and mp3 file format [1995]), especially the spread of personal computers and internet connection, was only the cherry on the cake. As a reaction to the above developments, legislators continuously expanded the scope of rights granted to right holders worldwide.
- 8 Another event that determined the latest changes of copyright law was the accelerating globalization. It consequently led to the strengthening of the cross-border nature of uses and the internationalization of copyright law. One of the key facilitators of such a phenomenon was the internet. Therefore, global solutions are needed to meet the challenges of copyright law.³⁰ Developed countries or economic communities, like the United States or the European Union, have taken necessary steps to manage the highest level of protection and rules of enforcement,³¹ as it is most recently mirrored by the ACTA negotiations.³²
- 9 The history of the internet is coloured by hundreds of vital debates that are due to the unauthorized use of copyrighted contents. The principle of exhaustion is no exception. The launch of online stores offering used software, sound recordings, audio books or e-books has raised new and pressing questions. The most important one is *whether the doctrine of exhaustion that was originally developed to cover the resale of physical/tangible objects shall be applicable to contents sold in digital format via the internet.*

- 10 The present article aims to introduce the relevant rules on and policies of exhaustion on the international and EU level, and furthermore, under the law of the United States (Part B). After the normative frames of the doctrine, the pioneer court decisions handed over in the *UsedSoft*, *ReDigi*, the *German e-book/audio book* cases, further the pending *Tom Kabinet* case from the Netherlands are discussed (Part C). In Part D these court decisions will be analysed through four distinct questions, with a special focus on the applicability of the exhaustion or first-sale doctrine in the online world. These questions are related, First, to the licence versus sale dichotomy; second, to the so-called umbrella solution; third, to the “new copy theory”, migration of digital copies via the internet, forward-and-delete technology; and finally, to the issue of *lex specialis* and the theory of functional equivalence.
- 11 The author of the present article stresses that the answers given by the respective judges of the above cases are not the final stops in the discussion. The *UsedSoft* preliminary ruling and the subsequent German domestic decisions highlight a special treatment for computer programs but no other subject matter. On the other hand, the refusal of digital exhaustion in the *ReDigi* and the audio book/e-book cases might be in accordance with the present wording of copyright law; however, they do not necessarily reflect the present-day trends. The paper takes the position that the need for digital exhaustion is constantly growing in today’s society and amongst businesses, and that there are reasonable arguments in favour of equalizing the resale of works sold in tangible and intangible format. Consequently, the paper urges the reconsideration of the norms on exhaustion both on the international and EU level. These arguments – together with the counterarguments – will be collected and introduced in Part E.
- 12 As such, the above structure makes it clear that two different concepts wrestle with each other. The traditional, positivist (pro-copyright) vision calls for the exclusion of the exhaustion principle in the digital environment. On the other hand, a constructive realistic notion urges the adoption of a more flexible treatment of the doctrine for the sake of users’ rights and the development of online economies. The present paper starts with the first concept and ends up with the second.

B. The theory of exhaustion/ first sale doctrine

I. International copyright law

- 13 The first-ever international IP treaty that touched on the copyright aspects of exhaustion was the TRIPS Agreement of 1994.³³ Although the “Chairman’s Text” of 1991 still recommended for the introduction of both a general right of distribution and the principle of exhaustion related thereto,³⁴ these plans failed after a lengthy preparatory work.³⁵ The final text of the TRIPS Agreement referred to the principle from a neutral aspect when it stressed that “[f]or the purposes of dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.”³⁶ Under these rules, all that the signatories have to keep in mind is that they shall apply the principle of national treatment and the most-favoured-nation treatment when designating the reach of exhaustion; furthermore, that any dispute related to a domestic regulation shall not be the subject to a dispute settlement procedure under the WTO law. The latter does not forbid, however, the initiation of legal proceedings in front of domestic courts.³⁷
- 14 The limited solution of the TRIPS Agreement is partially due to the fact that the agreement was finally concluded without any substantive provision on a distinct right of distribution.³⁸ On the other hand, by 1994, only a few countries had a settled regulation and case law on exhaustion/first sale doctrine. These countries set the frames of the principle quite differently. Countries like the Netherlands³⁹ or Switzerland⁴⁰ codified the doctrine of international exhaustion. Likewise, several developed countries, for example Australia or New Zealand,⁴¹ and developing nations were interested in a broad reach of the principle.⁴² Others, like the United States⁴³ or Germany⁴⁴, advocated for domestic/national exhaustion. The European Economic Community accepted two directives before 1994 that envisaged a Community-wide, regional exhaustion.⁴⁵ The contracting parties opined differently on the principle, and the final text turned out to be the best compromise for the signatories. Therefore the TRIPS Agreement did not introduce any substantive obligation and provided absolute freedom to the contracting parties to decide whether they are willing to introduce a principle of exhaustion, and if yes, whether it should have a domestic, regional or international reach.⁴⁶
- 15 The two Internet treaties of the World Intellectual Property Organization (WIPO) from 1996 already included positive norms on exhaustion.⁴⁷ This is

partially due to the fact that, for the first time in international copyright law history, these treaties granted for a general right of distribution.⁴⁸ Article 6(2) of the WIPO Copyright Treaty (WCT) – and Article 8(2) of the WIPO Performances and Phonograms Treaty (WPPT) with a really similar wording⁴⁹ – noted that “[n]othing 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”. Under the above terms, members of the WIPO Treaties shall comply with some substantive provisions of the WCT/WPPT.

- 16 First, WCT and WPPT granted great flexibility to signatories to regulate the content of the principle by their domestic law. The treaties allowed a freedom to national legislators to choose from introducing domestic, regional or international reach of the doctrine, if any.⁵⁰
- 17 Second, it prescribed the sale/transfer of ownership and the lawful (authorized) nature of the sale of the work as elements of the definition of the principle.⁵¹
- 18 Third, the expression “nothing in this Treaty shall affect” highlighted that no other provision of the treaty, including WCT Article 10 and WPPT Article 16 on the three-step test, forbids signatories to regulate on exhaustion.⁵² This technically means that *the freedom of lawful acquirers to dispose of the property of the work is absolutely in accordance with the law; and that the resale does not per se conflict with the normal exploitation of the work and does not prejudice the legitimate interests of the respective author.*⁵³
- 19 Finally, the Agreed Statement attached to Articles 6 and 7 made it clear that “[a]s used in these Articles, the expressions ‘copies’ and ‘original and copies,’ being subject to the right of distribution and the right of rental under the said Articles, refer exclusively to fixed copies that can be put into circulation as tangible objects.”
- 20 It seems that in light of the preamble of both the WCT⁵⁴ and the WPPT⁵⁵ – that is, to set the frames of an effective and working copyright law in the age of internet – the most important element of the definition is the one contained by the Agreed Statement; that is to say that exhaustion does only apply to tangible objects of works. As we will see it later, this statement is the main obstacle of the development of digital exhaustion. As Professor Sterling noted it: “[t]hus, as far as the treaty text is concerned, the debate as to whether the distribution right should cover dissemination of works by electronic means is resolved; the intention in the Treaty is to cover only ‘hard copies’ such as books, discs and tapes”.⁵⁶ Others view it differently. Ruffler stresses that “what [the Agreed Statement] actually says is that the copies can be put into circulation as tangible objects. That is, that it must be possible to fix them in a tangible medium, and not that they must already be fixed as tangible objects. What is obviously meant is that it should not be a question of quick, one-off acts as is the case with on-demand online services but one of works which are capable of being permanently transferred.”⁵⁷
- 21 Related to the above, we need to touch upon another issue when talking about the distribution of works and objects of neighbouring rights protection. As soon as the use of internet became a daily routine, the question naturally emerged, whether copyright law should react on that phenomenon as well. The answer was a clear yes. The method of granting protection to the right holders regarding online uses was, however, much more difficult. Domestic copyright statutes showed significant differences regarding the rights granted to copyright holders. The two possible rights that were affected were the right of distribution (promoted greatly by the U.S.) and the right of communication to the public (supported mainly by European countries). None of these rights fit perfectly to the said Internet uses. Distribution was originally meant to cover the transfer of physical copies. Communication to the public generally covered simultaneous transmissions from one place to multiple places either by wire or wireless means (for example broadcasting, cable services, satellite transmission). Further, the international framework for both of these rights was incomplete, to say the best.
- 22 Mihály Ficsor, than Assistant Director General of the WIPO, explained “[b]etween the two opposing alternatives – that is, between basing the international regulation on interpretation and, as a maximum, on slight modification, of existing rights, on the one hand, and introducing a new on-demand transmission/delivery right, on the other – a third compromise alternative would also be possible (and, actually, would seem, for the time being, to have the best chance to get a sufficient general acceptance). This could consist of an umbrella provision under which it would be an obligation to grant an exclusive right or exclusive rights to authorize either any use of works and other protected productions – with some possible reasonable exceptions – through on-demand transmission/delivery, or to authorize certain acts – described in such a neutral way (that is, without involving any specific legal characterization) as possible – carried out in the case of such transmission/delivery, but the legal characterization of the right or rights granted (whether it results in the combination – and possible extension – of existing rights, and/or in a new specific right) would be left to national legislation”.⁵⁸ This third compromise option was finally accepted by the members of the WIPO, and finally regulated the new

economic right for both authors and neighbouring right holders.⁵⁹ Member States of the WIPO have, since that time, implemented the umbrella solution in various ways. As it will be introduced below, the European Union and the United States of America have followed a different path in this perspective.

- 23 To sum up: *although the right of making available to the public was formulated in a technology-neutral way, it was clearly designed to cover all on-demand transmissions of data via the Internet.* The right of making available to the public only applies, therefore, where the copyrighted subject matter is made accessible to every member of the public (having Internet connection), where members of the public may access these works from a place and at a time individually chosen by them. Consequently, predetermined programs, including webcasting, pay-per-use, pay-tv or pay-radio services are excluded from the scope of this distinct right and shall be covered by other rights, especially communication to the public or broadcasting.⁶⁰ Similarly, where tangible copies of contents (like CDs) are sold via the internet, the right of distribution applies.
- 24 The question that the present paper addresses is a special, third option: what if intangible copies of works are sold – and, from a technological perspective, are transferred – to the users via the internet?

II. EU copyright law

- 25 The fact that TRIPS and WCT/WPPT were the first international *treaties* touching upon the doctrine of exhaustion does not mean that they were the first international *norms* at all that regulated the issue. The European Court of Justice (ECJ) and the legislature of the European Economic Community have taken serious steps to harmonize the rules of a Community-wide/regional exhaustion doctrine in the field of copyright law since the 1970's.⁶¹ Schovsbo called the harmonization by the ECJ as “1.-phase” development of exhaustion or negative harmonization, and the creation of directives by the competent bodies of the EEC (and later the EU) as “2.-phase” development or positive harmonization.⁶²
- 26 The first-ever decision on the exhaustion of distribution rights was handed over in the famous *Deutsche Grammophon* case. Here, the ECJ based its decision on different objectives of the EEC Treaty: the prohibition of partitioning of the market, free movement of goods, as well as the prohibition of distortions of competition in the common market.⁶³ The ECJ highlighted that prohibitions and restrictions on trade might be applied by Member States, also in cases of copyright law, if they do not constitute a means of arbitrary discrimination or a disguised restriction on trade between Member

States.⁶⁴ Based upon these, the ECJ concluded that “[i]f a right related to copyright is relied upon to prevent the marketing in a Member State of products distributed by the holder of the right or with his consent on the territory of another Member State on the sole ground that such distribution did not take place on the national territory, such a prohibition, which would legitimize the isolation of national markets, would be repugnant to the essential purpose of the Treaty, which is to unite national markets into a single market. That purpose could not be attained if, under the various legal systems of the Member States, nationals of those States were able to partition the market and bring about arbitrary discrimination or disguised restrictions on trade between Member States. Consequently, it would be in conflict with the provisions prescribing the free movement of products within the common market for a manufacturer of sound recordings to exercise the exclusive right to distribute the protected articles, conferred upon him by the legislation of a Member State, in such a way as to prohibit the sale in that State of products placed on the market by him or with his consent in another Member State solely because such distribution did not occur within the territory of the first Member State.”⁶⁵

- 27 The precedence of the basic principles and purposes of EEC Treaty – especially the free movement of goods – over the protection of copyright holders was later reaffirmed by the ECJ in the *Membran* case. The judges highlighted that “[i]t follows from the foregoing considerations that neither the copyright owner or his licensee, nor a copyright management society acting in the owner’s or licensee’s name, may rely on the exclusive exploitation right conferred by copyright to prevent or restrict the importation of sound recordings which have been lawfully marketed in another Member State by the owner himself or with his consent. (...) It should be observed next that no provision of national legislation may permit an undertaking which is responsible for the management of copyrights and has a monopoly on the territory of a Member State by virtue of that management to charge a levy on products imported from another Member State where they were put into circulation by or with the consent of the copyright owner and thereby cause the Common Market to be partitioned. Such a practice would amount to allowing a private undertaking to impose a charge on the importation of sound recordings which are already in free circulation in the Common Market on account of their crossing a frontier; it would therefore have the effect of entrenching the isolation of national markets which the Treaty seeks to abolish.”⁶⁶
- 28 The Luxembourg court later developed a second prong of Community-wide exhaustion under which it does not apply to services. In the *Coditel I* case

the ECJ confirmed that it is not a mean of arbitrary discrimination or a disguised restriction to grant a territorial exclusivity to “show” cinematographic works, and consequently to prohibit the broadcasting of the said works by an unlicensed cable television company who received the signals from a different Member State.⁶⁷ The ECJ noted that “the right of a copyright owner and his assigns to require fees for any showing of a film is part of the essential function of copyright in this type of literary and artistic work”.⁶⁸ To put it differently: cinematographic works might be repeated (commercially exploited) without any limitations via performances/broadcasting.⁶⁹

- 29 Similarly, the EEC-compatibility of the rental right granted to copyright holders by the Danish Copyright Act was confirmed by the ECJ in the *Warner Brothers v. Christiansen* case. As the judges noted: “[t]he existence of [rental] market was made possible by various factors such as the improvement of manufacturing methods for video-cassettes which increased their strength and life in use, the growing awareness amongst viewers that they watch only occasionally the video-cassettes which they bought and, lastly, their relatively high purchase price. The market for the hiring-out of video-cassettes reaches a wider public than the market for their sale and, at present, offers great potential as a source of revenue for makers of films. However, it is apparent that, by authorizing the collection of royalties only on sales to private individuals and to persons hiring out video-cassettes, it is impossible to guarantee to makers of films a remuneration which reflects the number of occasions on which the video-cassettes are actually hired out and which secures for them a satisfactory share of the rental market. That explains why, as the Commission points out in its observations, certain national laws have recently provided specific protection of the right to hire out video-cassettes.”⁷⁰
- 30 To sum up: the ECJ has set a basic definition of the exhaustion doctrine, under which the copyright holder cannot object to the resale of the physical data carrier put into circulation by the copyright holders or their assignees in any of the Member States. This is reasoned by the basic principles of the EEC, especially the free movement of goods. The copyright holder retains, however, an exclusive right to use and allow copyrighted subject matter to be used via services, including broadcasting and rental.⁷¹
- 31 Only a few weeks after the ECJ published its *Warner Brothers v. Christiansen* decision did the European Commission also revealed its Green Paper on Copyright and the Challenge of Technology. Here the Commission concluded that “[t]he Court has held that in all these fields reliance on an exclusive right to exclude goods lawfully marketed in other Member States would be incompatible with the fundamental principles of the Community Treaty providing for the free circulation of goods since it would legitimize the isolation of national markets. While Article 36 EEC authorizes the Member States to maintain restrictions on imports justified on the grounds of the protection of industrial and commercial property, it does not permit a right holder to prevent the free circulation of goods once, with the right holder’s consent, they have been placed on the market within the Community.”⁷² The fact that the ECJ has developed quite a detailed precedent law on this territory was enough for the Commission to conclude that “national copyright laws will not have adverse or divergent effects on the functioning of the common market”.⁷³ *The introduction of a right of distribution and consequently a principle of exhaustion of the distribution right was therefore declared to be unnecessary in 1988.*⁷⁴
- 32 At the same time, the European Commission fairly realized that several urgent issues need to be addressed by community law. Unlike public lending that the Commission found unnecessary to regulate yet,⁷⁵ provisions on the rental of sound recordings, audio-visual contents and computer programs turned out to be timely. Before the appearance of digital technologies the commercial rental seemed to be an unattractive business due to the massive deterioration of data carriers, and consequently the worsening of enjoyment of contents.⁷⁶ As soon as CDs were standardized by Sony in 1983 and digital audio tapes – that for the first time allowed for the digital reproduction of contents at home – were put into circulation by Sony in 1987, the quality of the copies of works turned out to be stable enough, and “rental outlets have mushroomed”.⁷⁷ The same was true for the audio-visual sector, since the public had greater interest in renting video contents, rather than purchasing them. The popularity of rental was partially due to the expensive nature of the video tapes and the related equipment as well.⁷⁸ Sadly, the EU Green Paper missed to include any well-founded argumentation in respect of the rental of computer programs within the European Economic Community. The document only urged for the acceptance of broad use rights for the benefit of software producers.⁷⁹
- 33 It is therefore not a surprise that commercial actors of the music, video and software industry expressed their interest in introducing a new rental right on an EEC level. The European Commission accepted their opinion. It noted that “[p]resent trends in the distribution and marketing of sound and video recordings suggest that commercial rental will constitute an increasingly important means by which such recordings will be made available to the public. Furthermore, given the links between rental and the problems of piracy and private copying, this development implies significant economic consequences for those whose works

and performances are recorded. In the absence of a firm legal basis for right holders to authorize the commercial exploitation of their works through rental, it seems likely that those responsible for creating recorded works will receive a much lower return for their efforts and investment than would otherwise be the case, while middlemen could profit disproportionately from the efforts of other.”⁸⁰

- 34 The European Commission recommended an action to introduce a new rental right for the benefit of the right holders of the music, video and software industry. The EU Green Paper also highlighted that the introduction of this right would not be contrary to the case law of the ECJ, since the latter developed the principle of exhaustion only in respect of the sale of tangible copies of works, and excluded the operation of the principle in respect of “service-style” rights, like performance.⁸¹
- 35 The Software Directive was finally enacted in 1991.⁸² It introduced a new rental right for the producers of computer programs. In light of the case law of the ECJ introduced above it seemed to be wise enough to regulate the principle of exhaustion in respect of the rental right. Therefore, the Software Directive provided that “[t]he first sale in the Community of a copy of a program by the right holder or with his consent shall exhaust the distribution right within the Community of that copy, with the exception of the right to control further rental of the program or a copy thereof.”⁸³
- 36 The above wording of the principle has some specific features that differentiate it from the norms set by the TRIPS Agreement and the WIPO Internet Treaties. First, it is a special law on computer programs, not any other subject matter. Second, there is clearly no restriction on the form of the copy. That is, the resale of intangible copies is not excluded per se from the doctrine.⁸⁴ Third, the Software Directive envisaged a Community-wide exhaustion, under which the sale of the computer program within any of the member states – that time only 12, nowadays 28 – exhausts the right of distribution in every other member states as well. Finally, the directive – following the ECJ’s case law – differentiated between “sale-style” and “service-style” forms of distribution, where the latter (more precisely rental of computer programs) was excluded from the scope of the doctrine. Oddly, the recitals of the directive include no further guidance on this issue.
- 37 A year later, the Council accepted the next directive, which has been referred to as Rental Directive.⁸⁵ The short (or nick) name of the directive is quite misleading, since it harmonized the rights granted to related rights holders as well. As a part of the letter form of protection, Article 9(1) introduced a right of distribution for the benefit of performers, with regards to fixations of their performances;
- for phonogram producers, in respect of their phonograms; for producers of the first fixations of films, in respect of the original and copies of their films; and for broadcasting organizations, with regards to fixations of their broadcast. Article 9(2) followed the idea of Community-wide exhaustion.⁸⁶ Further, the Rental Directive excluded the right of rental and lending – as services – from the theory of exhaustion.⁸⁷ Similar to the Software Directive, the Rental Directive lacks further guidance on exhaustion in the recitals.
- 38 Shortly after the acceptance of this directive, a German corporation that was involved in the rental of sound recordings questioned the legitimacy of the newly erected rental right, especially its exclusion from the scope of the doctrine of exhaustion. The CJEU refused to accept these claims and stressed that “the release into circulation of a sound recording cannot therefore, by definition, render lawful other forms of exploitation of the protected work, such as rental, which are of a different nature from sale or any other lawful form of distribution. (...) Thus, the distinction drawn in the Directive between the effects of the specific rental and lending right (...) and those of the distribution right (...) is justified. The former is not exhausted by the sale or any other act of distribution of the object, whereas the latter may be exhausted, but only and specifically upon the first sale in the Community by the right holder or with his consent. The introduction by the Community legislation of an exclusive rental right cannot therefore constitute any breach of the principle of exhaustion of the distribution right, the purpose and scope of which are different.”⁸⁸
- 39 The Court continued its ruling as follows: “the inclusion, challenged by the defendant in the main proceedings, of phonogram producers among the beneficiaries of the exclusive rental right appears justified by the protection of the extremely high and risky investments which are required for the production of phonograms and are essential if authors are to go on creating new works. As the Advocate General explained in point 26 of his Opinion, the grant of an exclusive right to producers certainly constitutes the most effective form of protection, having regard in particular to the development of new technologies and the increasing threat of piracy, which is favoured by the extreme ease with which recordings can be copied. In the absence of such a right, it is likely that the remuneration of those who invest in the creation of those products would cease to be properly guaranteed, with inevitable repercussions for the creation of new works.”⁸⁹
- 40 In 1996, a further directive was passed by the European Parliament and the Council on the protection of database. Here, the directive also granted for a right of distribution for the benefit of authors of databases. This right was limited by the

doctrine of exhaustion. According to the Database Directive, “the first sale in the Community of a copy of the database by the right holder or with his consent shall exhaust the right to control resale of that copy within the Community.”⁹⁰ Such basic rule is limited in two major ways. First, Recital 43 of the Database Directive rules that “in the case of on-line transmission, the right to prohibit re-utilization is not exhausted either as regards the database or as regards a material copy of the database or of part thereof made by the addressee of the transmission with the consent of the right holder”. Second, the rental and lending of database is governed by the Rental Directive, and consequently there is no exhaustion related to these rights in respect of databases.⁹¹

- 41 The Information Society (InfoSoc) – or as many call it, the Copyright – Directive harmonized a general right of distribution (granted to authors as well), as well as a general exhaustion doctrine covering all protectable subject matter in 2001. The InfoSoc Directive aimed the implementation of the respective provisions of the WIPO Internet Treaties. Under Article 4(2) of the latter directive, “[t]he distribution right shall not be exhausted within the Community in respect of the original or copies of the work, except where the first sale or other transfer of ownership in the Community of that object is made by the right holder or with his consent.” Unlike in the case of the Software and Rental Directive, the normative text of the InfoSoc Directive was supplemented by two recitals on the relevant subject matter. Recital 28 stressed that the right of distribution only affects works incorporated in a tangible article or object; further, it reaffirmed the Community-wide exhaustion.⁹² Recital 29 excluded services as a default and those material copies produced via any on-line service from the scope of exhaustion.⁹³ Such an exclusion is similarly mirrored by Article 3(3) of the InfoSoc Directive.⁹⁴
- 42 Three important notes need to be added here. First, the doctrine of exhaustion has been completely regulated at the level of directives. It might be important to recall, therefore, a paragraph of an ECJ decision, according to which “recourse to Article 36 is nonetheless no longer possible where Community directive provide for harmonization of the measures necessary to achieve the specific objective which would be furthered by reliance on this provision.”⁹⁵
- 43 Second, the EU legislation has settled some remarkable limitations to the doctrine of exhaustion. The principle might only restrict the resale of tangible copies, as envisaged by Recital 28 of the InfoSoc Directive that incorporated Agreed Statement attached to Article 6 and 7 of the WCT. As a consequence, uses of protected subject matter that are not connected to any tangible copy, or those that are offered as a service, shall not exhaust the right holders’ exclusive rights.⁹⁶ Such rights are communication to the public, including broadcasting, retransmission and making available to the public, rental and lending.⁹⁷
- 44 The other limitation is connected to the territorial nature of copyright law under which domestic provisions might only apply within the physical boundaries of the given country. This practically means that a use abroad authorized by the right holder in the given country does not exhaust the right to control any domestic distribution of the copies of the work. The ban on parallel importation is therefore a general tool to prevent the flow of – sometimes cheaper – copies produced or sold abroad to another markets. This ban was, however, partially overruled by the EEC and later the EU, when it introduced the concept of Community-wide or regional exhaustion. The territory of the member states has been envisaged as a single market, and consequently the resale of goods might be only blocked if originally sold outside of the economic community.⁹⁸ This means that if the copy of the work is put into circulation in any of the 28 EU Member States or the three further European Economic Area members (Lichtenstein, Iceland or Norway) that copy shall freely circulate within the EEA.⁹⁹ Corbet called the freedom of users to resell lawfully purchased copies within the EEA as “Eurodefense”.¹⁰⁰ At the same time, the introduction of the doctrine of Community-wide or regional exhaustion effectively led to the acceptance that Member States of the European Union and the EEA are excluded from providing a broader scope of exhaustion, that is, an international one.¹⁰¹ As the CJEU stressed it in its ruling in the *Laserdisken* case: “[i]t follows from the clear wording of Article 4(2) of Directive 2001/29, in conjunction with the twenty-eighth recital in the preamble to that directive, that that provision does not leave it open to the Member States to provide for a rule of exhaustion other than the Community-wide exhaustion rule. (...) This, moreover, is the only interpretation which is fully consistent with the purpose of Directive 2001/29 which, according to the first recital in the preamble thereto, is to ensure the functioning of the internal market. A situation in which some Member States will be able to provide for international exhaustion of distribution rights whilst others will provide only for Community-wide exhaustion of those rights will inevitably give rise to barriers to the free movement of goods and the freedom to provide services.”¹⁰²
- 45 Finally, although it is not common to discuss it as a limit of the principle of exhaustion, the *droit de suite*¹⁰³ similarly puts barriers to the uncontrolled flow of works within the European Union.¹⁰⁴ Under the relevant EU directive, “[t]he resale right is a right of a productive character which enables the author/artist to receive consideration for successive transfers of the work. The subject-matter of the

resale right is the physical work, namely the medium in which the protected work is incorporated”.¹⁰⁵ Contrary to the scope of the Berne Union Convention, the EU directive grants the resale right only for visual artists. Literary authors and composers are excluded from the protection.¹⁰⁶ The *droit de suite* is an inalienable and unwaivable right that provides for the receipt of a royalty “based on the sale price obtained for any resale of the work, subsequent to the first transfer of the work by the author”.¹⁰⁷ The royalty shall be payable if the resale involves an art market professional, either as a seller, purchaser or intermediary.¹⁰⁸ The *droit de suite* is not an unlimited right. According to the Article 1(3) of the directive “Member States may provide that the right referred to in paragraph 1 shall not apply to acts of resale where the seller acquired the work directly from the author less than three years before that resale and where the resale price does not exceed EUR 10000”. The subject matter of the directive is similarly limited to “works of graphic or plastic art such as pictures, collages, paintings, drawings, engravings, prints, lithographs, sculptures, tapestries, ceramics, glassware and photographs”.¹⁰⁹ Member States are likewise obliged to set a threshold – minimum maximum 3000€ – under which the resale shall be royalty free.¹¹⁰ Still, as it is clearly visible from the above, *the resale royalty right excludes exactly what the principle of exhaustion envisages: the free disposal of the property of a tangible copy.*

- 46 Thirdly, due to the fact that the InfoSoc Directive has not only implemented a separate right of distribution but also added a distinct right of making available to the public (introduced as a subcategory of the communication to the public right), the EU legislation has expressed its clear willingness to deal with on-demand uses outside of the scope of the right of distribution. The question remains whether such a solution shall be deemed as a proper, working solution under the current technological realities.

III. U.S. copyright law

- 47 Although the *Bobbs-Merrill v. Straus* case¹¹¹ has undeniably become the leading historical precedent of the first sale doctrine, there were a few earlier federal court decisions dealing with the issue.¹¹² For the purposes of the present article, however, there is no need to introduce other than the above mentioned *Straus* case. There, the Bobbs-Merrill Company registered the copyright on Hallie Erminie Rives’ book titled “*The Castaway*” by the U.S. Copyright Office on May 18, 1904. The book was published immediately thereafter. On the first inside page of the book the publisher printed an expressed warning that the copies of the work shall not be distributed for a retail price of less than one dollar. Naturally, the Bobbs-Merrill Company sold
- the books on wholesale for a reduced price. The R. H. Macy & Company owned by Isidor and Nathan Straus purchased from these books by the gross for less than a half dollar per item. Contrary to the warning described above, the R. H. Macy & Company resold the copies for a retail price of \$0.89.¹¹³ The Bobbs-Merrill Company deemed this practice an infringement of its copyright and therefore sued the Straus brothers.
- 48 As the Supreme Court of the United States highlighted, the main question of the case was, whether “[the right to vend] intended to create a right which would permit the holder of the copyright to fasten by notice in a book or upon one of the articles mentioned within the statute, a restriction upon the subsequent alienation of the subject-matter of copyright after the owner had parted with the title to one who had acquired full dominion over it and had given a satisfactory price for it?”¹¹⁴ The justices answered in the negative as follows: “In our view the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose, by notice, such as is disclosed in this case, a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract. (...) To add to the right of exclusive sale the authority to control all future retail sales, by a notice that such sales must be made at a fixed sum, would give a right not included in the terms of the statute, and, in our view, extend its operation, by construction, beyond its meaning, when interpreted with a view to ascertaining the legislative intent in its enactment.”¹¹⁵
- 49 The Supreme Court first noted that in light of the aims of the Congress the right to vend (currently: right to distribute) – as regulated by the Copyright Act of 1831¹¹⁶ – did not allow the right holder to control the resale of the copy of the work by its lawful acquirer via a written stipulation, supposed that the right holder passed on the ownership of the said copy in exchange of a fair remuneration.¹¹⁷ Second, the stipulation that prohibited the resale of the copy contrary to the conditions set by the right holder only affected those distributors who contracted the right holder. That is, all those who accepted the conditions as binding upon himself committed a breach of contract by the resale of the books (for *retail price* of less than a dollar).¹¹⁸
- 50 Congressmen who were involved in the drafting of the new Copyright Act at that very moment recognized the validity of the Supreme Court’s logic¹¹⁹ and enacted the doctrine in the Copyright Act of 1909. According to the statute “[n]othing in this title shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work, the possession of which has been lawfully obtained.”¹²⁰ The creators of the current Copyright Act (enacted

in 1976) transferred the previous statutory provision with some minor – but not insignificant – changes. *USCA* §109(a) regulates that “[n]otwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”

- 51 Shortly after the entry into force of the *USCA*, right holders faced unexpected challenges. New business models appeared – originally on the Japanese market – for the rental of sound recordings, computer programs and video tapes. The number of music rental stores grew to 1600 by 1983 in Japan,¹²¹ whilst Rent-A-Record – that opened its first store in Providence, Rhode Island, in 1981 – ran 250 stores in the United States by 1983.¹²² If we combine these numbers with the fact that the CD appeared on the market in 1983, we can easily understand why the record industry initiated an overwhelming attack against music rental. Lobbyists envisioned the death of the music industry, if Congress had missed the opportunity to take steps in this situation.¹²³ The Senate reported surprisingly fast that the rental of sound recordings infringes on the right of distribution. The report concluded that “the purpose and result of record rentals is to enable and encourage customers to tape their rented albums at home. (...) This, a record rental and a blank tape purchase is now an alternative way of obtaining a record without having to buy one. The rental is a direct replacement of a sale.”¹²⁴ As a consequence, Congress enacted *USCA* §109(b)(1). The original wording of the text said that “[n]otwithstanding the provisions of subsection (a) [the first sale doctrine], unless authorized by the owners of copyright in the sound recording and in the musical works embodied therein, the owner of a particular phonorecord may not, for purposes of direct or indirect commercial advantage dispose of, or authorize the disposal of, the possession of that phonorecord by rental, lease, or lending, or by any other act or practice in the nature of rental, lease, or lending.”¹²⁵
- 52 The social receptivity of rental similarly endangered the interests of the American software industry. Computer programs, especially computer games, became available for an approximately \$1-20 daily rental fee. Some estimated that the software industry lost around 1.3 billion USD due to unauthorized rental of computer programs between 1981 and 1984.¹²⁶ A bill of statute was submitted to the Congress in 1986, however, the law was enacted only in 1990. The *USCA* excluded the rental, leasing and lending of computer programs from the scope of the first sale doctrine.¹²⁷
- 53 Rental of video tapes has become a daily routine, as well, from the beginning of the 1980’s. There were times when the ratio of rental and sale has reached almost 9 to 1.¹²⁸ A bill of statute was submitted to Congress in 1983. The proposal recommended the exclusion of video tape rentals from the scope of the first sale doctrine.¹²⁹ There are multiple reasons why this bill failed. First, the *Betamax* decision was handed over by the U.S. Supreme Court in 1984. Although that case was not focusing on the first sale doctrine, however, the justices favoured private users and Sony by declaring “time-shifting” of broadcasts by *Betamax* video tape recorders as fair use.¹³⁰ Some argue that this was a reason why members of the Congress left audio-visual contents outside of the scope of the Record Rental Amendment Act in 1984.¹³¹ Second, during the “golden age” of video rental the price of the video tape recorder and the video tapes was extremely high.¹³² It was therefore quite difficult and expensive to build a “library of videotapes”. Thirdly and the foremost, Hollywood studios succeeded in concluding contractual agreements with the franchise owners of the rental stores to rent only pre-recorded video tapes purchased legally and directly from the studios.¹³³ In several cases studios acquired bigger profit than box office sales under these agreements.¹³⁴
- 54 The United States of America signed the *North American Free Trade Agreement (NAFTA)* with Canada and Mexico in 1992. One of the objectives of *NAFTA* is to “eliminate barriers to trade in, and facilitate the cross-border movement of, goods and services between territories of the Parties”.¹³⁵ The Agreement regulates intellectual property rights as well.¹³⁶ According to Article 1705-1706 contracting parties are obliged to guarantee the exercise of right holders’ economic rights.¹³⁷ Looking carefully at these provisions we might discover that *NAFTA* prohibits “the importation into the Party’s territory of copies of the work made without the right holder’s authorization”. This sentence means that contracting states introduced a “limited regional exhaustion” doctrine. First, right holders are not allowed to control the importation of the lawfully made copies. Second, however, any further use of these copies within the importing country (including sale, rental and other forms of distribution) might be overseen by the right holder. The effectiveness of the above regulation is questionable, since there is no sanction that might be used in case the provisions are infringed.¹³⁸ It is similarly squealing that there is no court decision on the above referred Articles of *NAFTA*.
- 55 It is not only *NAFTA* that speaks about parallel importation under American law. The *USCA* declares the importation of copies of works acquired abroad as an infringement of the distribution right.¹³⁹ The statute, however, doesn’t include anything about the interplay of the first sale doctrine and the prohibition of parallel imports. It is left to the courts to decide about the legality of those copies that were lawfully produced, put into circulation and acquired

abroad or those copies that were lawfully produced in the U.S., later exported and then acquired abroad, finally imported back to the U.S. again.

- 56 U.S. federal district and circuit courts have developed quite a complicated and sometimes inconsistent practice on the above question,¹⁴⁰ which are topped by three separate rulings from the U.S. Supreme Court. The present article is going to summarize only the latter trio.
- 57 The first decision of the U.S. Supreme Court on parallel importation was handed over in the *Quality King v. L'anza* case. Here, several tons of shampoo were produced by L'anza in the United States and exported to a British distributor who in turn sold them to a Maltese company. Quality King purchased these products from the latter company for approximately 35-40% cheaper than the U.S. retail price. Quality King later imported the shampoo back to the United States.¹⁴¹ Both the district court¹⁴² and the Ninth Circuit¹⁴³ favoured L'anza, however, the Supreme Court overturned those decisions. The justices stressed that the works – here, quite paradoxically, the copyrighted text printed on the cover of the shampoo boxes¹⁴⁴ – produced within the United States and exported abroad were covered by USCA §109(a).¹⁴⁵ Further, USCA §602(a) is subordinated to §106(3) and §109(a).¹⁴⁶ The Supreme Court also noted that the general ban on parallel importation remains important, since “the first sale doctrine would not provide a defense to a §602(a) action against any non-owner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful.”¹⁴⁷ As, however, Justice Ginsburg noted in her concurring opinion, “[t]his case involves a ‘round trip’ journey, travel of copies in question from the United States to places abroad, than back again. I join the Court’s opinion recognizing that we do not today resolve cases in which the allegedly infringing imports were manufactured abroad”.¹⁴⁸
- 58 The next major issue was evolving around the importation of luxurious Omega watches that were decorated by trademarked and at the same time copyrighted designs (the “*Omega Globe Design*”). The U.S.-based wholesale company, Costco, offered for sale 117 Seamaster watches 35% cheaper than Omega’s original retail price. The said watches were originally produced in the Switzerland and sold in Paraguay and Egypt.¹⁴⁹ Although the district court rejected plaintiff’s claims,¹⁵⁰ the Ninth Circuit reversed that decision, concluding that – contrary to the round trip journey of L’anza’s shampoo – the Omega watches were not lawfully made under this title, that is, they were not lawfully produced on U.S. soil.¹⁵¹ The Ninth Circuit relied both on the dicta of the *Quality King* decision quoted above and Justice Ginsburg’s concurring opinion, when it confirmed the applicability of §602(a).¹⁵² The circuit court’s ruling was affirmed by an equally divided (4-4) Supreme Court,¹⁵³ that was handed over *per curiam*.¹⁵⁴ It is worth mentioning that after remanding the case to the trial court, Costco started to rely on an absolutely new argument in its defence. The company claimed that Omega misused its copyrights¹⁵⁵ when it relied on the copyrighted design to prohibit the importation of the Seamaster watches to the United States. The district court accepted this argument, and concluded that “[h]ere, Omega concedes that a purpose of the copyrighted Omega Globe Design was to control the importation and sale of its watches containing the design, as the watches could not be copyrighted. Accordingly, Omega misused its copyright of the Omega Globe Design by leveraging its limited monopoly in being able to control the importation of that design to control the importation of its Seamaster watches.”¹⁵⁶
- 59 The Supreme Court continued to interpret the issue of parallel imports in the *John Wiley & Sons v. Kirtsaeng* case. Here, defendant Supap Kirtsaeng, national of Thailand, systematically imported textbooks to the United States printed by the Asian branch of John Wiley & Sons. Although the Asian versions were identical in their content with those printed in the United States, however, they were produced on worse paper, they were only published in paperback and they lacked multimedia supplements. Kirtsaeng profited over \$37.000 during the years of his business. The publishing house finally sued Kirtsaeng in 2008 on copyright, trademark and unfair competition claims.¹⁵⁷
- 60 The district court favoured the plaintiff,¹⁵⁸ and the majority of the Second Circuit panel affirmed the trial court decision.¹⁵⁹ Circuit Judge Garvan Murtha expressed his criticism towards the majority’s decision in his dissenting opinion. He refused to accept that USCA §109(a) has a geographical connotation,¹⁶⁰ and that any contrary decision would lead to the depreciation of the ban on parallel imports.¹⁶¹ As Murtha concluded “[s]uch a result would provide greater copyright protection to copies manufactured abroad than those manufactured domestically. (...) I do not believe Congress intended to provide an incentive for U.S. copyright holders to manufacture copies of their work abroad”.¹⁶²
- 61 The importance of Murtha’s dissenting opinion is evidenced by the decision of the Supreme Court that allowed for the application of the first sale doctrine to the importation of works lawfully produced abroad, irrespectively of the place where the works were first put into circulation. Justices noted that the expression “lawfully made under this title” does not have any geographical meaning. It refers to the prerequisite of authorization by the right holder and production under the rules of the USCA.¹⁶³ The Supreme Court similarly accepted Murtha’s opinion on the equal treatment of right holders,¹⁶⁴

and similarly refused that their interpretation would depreciate *USCA* §602(a).¹⁶⁵ The majority of the Supreme Court also stressed that any geographical interpretation would inevitably lead to the increase of the costs of running the socially important services of public libraries, second hand book stores, IT companies or museums.¹⁶⁶ Finally, the majority also took the view that “the Constitution’s language nowhere suggests that its limited exclusive right should include a right to divide markets or a concomitant right to charge different purchasers different prices for the same book, say to increase or to maximize gain. (...) To the contrary, Congress enacted a copyright law that (through the ‘first sale’ doctrine) limits copyright holders’ ability to divide domestic markets. And that limitation is consistent with antitrust laws that ordinarily forbid market divisions.”¹⁶⁷

- 62 The consequence of the *Kirtsaeng* decision¹⁶⁸ might be that any work produced and put into circulation under the authorization of the right holder (or its subordinates) and in accordance with the copyright law of the relevant country shall be subject to importation, and there is no legal remedy against such activity. To sum up: *the doors are open for a doctrine of international exhaustion in the United States*. The consequences of such a decision are still unknown. Besides several positive effects (as emphasized by the justices above), it is almost sure that significant negative consequences will be visible soon, especially related to the pricing of books printed cheaper outside of the boundaries of the U.S., and related to the licensing practices of the U.S. companies.
- 63 Another crucial question needing to yet be discussed is that the *USCA* does not include any provision on the making available to the public right,¹⁶⁹ although both the WCT and the WPPT entered into force in the United States of America in May 2002. The lack of such right is not *per se* against the Internet Treaties, since, as it was introduced above, this right was envisaged as an “umbrella solution” for the on-demand uses. Historically, the U.S. has showed a great interest in addressing the digital transmission of copyrightable subject matter as distribution.¹⁷⁰ Since, however, neither the WCT nor the WPPT is a self-executing treaty in the U.S., the lack of clear wording on the issue in the *USCA* makes it difficult to know under what conditions U.S. judges might provide protection to right holders in respect of the online use of their copyrighted works. There are several federal courts that did not accept the concept of making available to the public at all,¹⁷¹ and there are other decisions with the opposite result.¹⁷² The uncertainty related to this issue was noticed by the Register of Copyrights, Maria A. Pallante, as well. Ms. Pallante stressed the importance to clarify the boundaries of distribution right, although she did not

explicitly refer to the codification of right of making available to the public.¹⁷³ The current academic literature supports this idea. David Nimmer recently amended his treaties on U.S. copyright law, where he noted that the making available to the public right shall be covered by the right of distribution.¹⁷⁴ Professor Menell reached the same conclusion based upon the historical interpretation of the *USCA*.¹⁷⁵

- 64 Digital market places – especially the one introduced by ReDigi – were born into the previously introduced *status quo* of the first sale doctrine. As it will be visible below, the initial answers given to the challenges posed by the online resale of digital contents are strictly limited under the traditional interpretation of the *USCA*.

C. Case law on digital exhaustion

I. The UsedSoft case¹⁷⁶

- 65 The first major court proceeding that shed light on the issue of digital exhaustion was the *UsedSoft* case.¹⁷⁷ Here, Oracle, a renowned software producer sued a German corporation, UsedSoft, for reselling “used software licences”. Oracle develops and markets several valuable computer programs, including the famous Java. The affected database computer programs were offered for download from the internet in 85% of the cases. Oracle signs end user licence agreements (EULA) with the purchasers of its programs. In the current case, the respective section of the EULA provided as follows: “With the payment for services you receive, exclusively for your internal business purposes, for an unlimited period a non-exclusive non-transferable user right free of charge for everything that Oracle develops and makes available to you on the basis of this agreement.”¹⁷⁸ Oracle similarly offered so-called volume licences to its computer programs, under which 25 end-users had the right to use the same licence. UsedSoft acquired volume licences, where the original licensee did not install the computer program in the available number offered by Oracle.¹⁷⁹ That is, the business model of UsedSoft was partially based on the split of volume licences. UsedSoft at the same time did not transfer any copies of the computer program. Rather, it directed its clients to Oracle’s website to download the respective program from that web page. UsedSoft launched an Oracle Special Offer in October 2005, where it offered up-to-date (that is, the maintenance agreement was still in force) software licences for resale. The company testified to the validity of the original purchase of the licence key by a notarial certificate. Oracle initiated court proceedings to stop the above Special Offer.¹⁸⁰

- 66 Both the trial court¹⁸¹ and the appellate court¹⁸² favoured Oracle's arguments. Consequently, the case reached the German Federal Court of Justice (*Bundesgerichtshof*, BGH). Although the BGH seemed to accept the lower courts' decisions, it turned to the CJEU with three questions. In its first question, the BGH asked for an opinion from the CJEU, whether any second or later acquirer of computer program who did not sign an EULA with Oracle shall be deemed as a "lawful acquirer", where the latter relies on the theory of exhaustion of distribution right when purchasing the software licence key. The BGH also needed guidance whether the distribution right of software producer exhausts at all where the computer program was offered for download (that is in an intangible form) rather than on any tangible medium (CD-ROM/DVD).¹⁸³ Finally, the BGH raised a third question that reflected the specific fact patterns of the case, and asked for guidance whether "a person who has acquired a used licence may, for making a copy of the program (...) rely on exhaustion of the right of distribution of the copy of the program made by the first acquirer, with the consent of the right holder, by downloading it from the internet, if the first acquirer has deleted his copy or no longer uses it."¹⁸⁴
- 67 The CJEU answered the three questions in a different order. Focusing first on the second question, the judges provided a bright-line rule on the exhaustion of software distribution rights. The Grand Chamber recalled that under Article 4(2) of the Software Directive the right of distribution exhausts if a copy of the computer program is sold within the EEA by the right holders (or under their authorization).¹⁸⁵ It was consequently important to decide, whether the conclusion of an EULA and the download of the computer program from Oracle's website leads to a first sale of the program or not.¹⁸⁶ Since the term "sale" used by the Software Directive does not refer to Member States' law, it was interpreted in an independent and uniform way.¹⁸⁷ The CJEU concluded that "[a]ccording to a commonly accepted definition, a 'sale' is an agreement by which a person, in return for payment, transfers to another person his rights of ownership in an item of tangible or intangible property belonging to him."¹⁸⁸
- 68 Oracle argued that it did not sell its computer programs; indeed, it signed an EULA with users, that is, only permitted the use of the computer programs and the ownership on the said works was not transferred to the users.¹⁸⁹ The CJEU did not accept this position. It noted that the downloading of the computer program and the conclusion of the EULA form an indivisible whole. The two steps only function with the other. The CJEU similarly stressed that there is no difference, whether the computer program is offered for download or by means of a material medium, since downloading a copy of the computer program (the source code) from the data carrier or from the internet to the user's computer and concluding a licence agreement remain inseparable from the point of view of the acquirer. Furthermore, Oracle's EULA allowed for the permanent use of the software in exchange for the payment of a fee that was directly designed to correspond to the economic value of the said computer program.¹⁹⁰ The CJEU concluded that Oracle's practice led to a sale, rather than a licence. This way, the principle of exhaustion could not be evaded simply through calling the contract as a licence.¹⁹¹
- 69 The CJEU refused the claim of Oracle and of the Commission that offering computer program for download on a website shall be deemed as making available to the public.¹⁹² The importance of this question is huge, since the right of making available to the public is not subject to the principle of exhaustion, unlike the right of distribution. The judges concluded that since Article 1(2) of the InfoSoc Directive notes that the directive does not affect in any way the rules of the Software Directive, the latter shall be deemed as *lex specialis*, and consequently the sale of the computer program leads to the exhaustion of the distribution right.¹⁹³
- 70 The CJEU also spent an enormous amount of time on discussing whether the principle of exhaustion applies to intangible copies of computer programs as well, or – as Oracle, the Commission and the Irish, Spanish, French and Italian governments indicated – only to tangible copies. The CJEU first noted that the Software Directive is referring to the first sale of the computer program without specifying the form of the copy sold. Therefore the principle of exhaustion shall cover the sale of both tangible and intangible copies of a computer program, including works that were downloaded from the web.¹⁹⁴ Here, the CJEU returned to its previous argument that the Software Directive acts as *lex specialis*, and therefore the interpretation of Article 4(2) shall be independent from the said international and EU norms.¹⁹⁵ The CJEU supported its point of view with two policy arguments. First, it claimed that "[t]he on-line transmission method is the functional equivalent of the supply of a material medium".¹⁹⁶ Second, the limitation of the principle of exhaustion to the copies sold on a tangible medium "would allow the copyright holder to control the resale of copies downloaded from the internet and to demand further remuneration on the occasion of each new sale, even though the first sale of the copy had already enabled the right holder to obtain an appropriate remuneration."¹⁹⁷
- 71 Oracle also claimed that since the updates offered by the company transformed the original computer program into new copies the licencees are not allowed to resell the "current" computer programs,

since those are not identical with the original ones. The CJEU refuted this argument, when noted that “the conclusion of a maintenance agreement, such as those at issue in the main proceedings, on the occasion of the sale of an intangible copy of a computer program has the effect that the copy originally purchased is patched and updated. Even if the maintenance agreement is for a limited period, the functionalities corrected, altered or added on the basis of such an agreement form an integral part of the copy originally downloaded and can be used by the acquirer of the copy for an unlimited period, even in the event that the acquirer subsequently decides not to renew the maintenance agreement.”¹⁹⁸

- 72 The CJEU accepted Oracle’s arguments on the legal classification of the partial resale of volume licences. The judges noted that volume licences are sold as a block by Oracle, and in the case that the original purchaser is willing to get rid of parts of that, he shall deactivate the remaining copies of the computer program.¹⁹⁹ Naturally, this would be impractical, and that is exactly against the original purchaser’s will.
- 73 Finally, the CJEU provided a joint answer to the first and third questions, when it concluded that the second (and any later) purchaser of the licence key shall be deemed as a lawful acquirer, who has the right to refer to the principle of exhaustion as a limitation of the right holder’s exclusive right of distribution. On the other hand, the reseller of the computer program is obliged to make unusable the copy originally installed on its own computer, and the right holder is allowed to ensure the deactivation by all technical means.²⁰⁰
- 74 The ruling of the CJEU was confirmed by the German Federal Court of Justice.²⁰¹ The BGH refused two novel arguments of the plaintiff that tried to devalue the binding nature of the preliminary ruling. Oracle first claimed that Member States are free to regulate their property system.²⁰² Under the German civil law, property might only exist on tangible goods rather than intangibles. Therefore, when the CJEU discussed the definition of (first) sale, it intruded into the freedom of Member States, since as a consequence it accepted property interests over intangible computer program as well. The BGH resisted this argument and stressed that the CJEU interpreted the meaning of the sale (and concluded it is a transfer of ownership), rather than the meaning of ownership at all, and the latter shall be interpreted under domestic law.²⁰³ Second, Oracle also noted that the CJEU ruling interfered with the WCT, when it accepted the exhaustion on intangible computer program, contrary to the content of the Agreed Statement. According to the BGH, however, the WCT introduced the right of distribution as a minimum right, and therefore the EU is not prohibited from broadening the scope of the doctrine of exhaustion

in order to include the redistribution of intangibles (computer program) as well.²⁰⁴

- 75 The BGH finally vacated the appellate court’s decision and ordered it to conduct a new proceeding. Here, the appellate court has to keep in mind first that plaintiff did obtain a “remuneration corresponding to the economic value of the copy of the work of which it is the proprietor”.²⁰⁵ Second, the defendant has to prove that UsedSoft only resold software licences that permitted a perpetual use; and that the maintenance agreements were still in force in respect of the resold computer program.²⁰⁶ The judges also stressed that UsedSoft has to demonstrate that the original purchasers made the resold computer program unworkable on their computers. Here a notarial certificate shall not be deemed *per se* as a proper evidence of the uninstallation. Additionally, the split of the volume licence is not acceptable, as discussed by the CJEU, and therefore the defendant has to prove that its clients sold the company only undivided volume licences.²⁰⁷ Finally, since secondary purchasers are only allowed to use the computer program for the purposes envisaged by the original licence provided by the right holder, it is the defendant’s duty to inform these secondary purchasers to comply with the provisions of the licence.²⁰⁸

II. The ReDigi trial court decision²⁰⁹

- 76 Shortly after the publication of the publishing, the *UsedSoft* ruling the District Court for the Southern District of New York decided on a partially similar issue. Here, ReDigi, “the world’s first and only online marketplace for digital used music”²¹⁰ was sued shortly after launching its service in October 2011. The original version of ReDigi allowed registered users to upload their legally purchased sound recordings to ReDigi’s Cloud Locker via the company’s Media Manager program. Media Manager detected the uploader’s computer and built a list of eligible files.²¹¹ Only those files were eligible for resale, which were lawfully purchased through iTunes²¹² or from another ReDigi user. This technically guaranteed that “pirate” copies of music files could not enter the system. Simultaneously, with the uploading of the file to the Cloud Locker, the content was erased from the source computer. This process was generally termed as “migration” (or “atomic transaction”) of the file. The other function of Media Manager was to continuously double-check whether the user retained any copy of the files they migrated to the Cloud Locker on their computers’ hard drive or any portable device synchronized with the computer. If Media Manager detected any file like that, the users were warned to erase the said copies. If the users missed to comply with the warning, their account was terminated by the company. After

uploading the files to the Cloud Locker, the users had two options: they either accessed their music for personal use or sold them to other users. In the latter case, the files were kept at the same location in the Cloud Locker. However, the “file pointer” of the said contents was changed. Consequently, only the new purchaser had the right to access the sound recording and not the seller. The new users had the ability to access the files from their accounts or to download them to their computers. Users paid with credits purchased from ReDigi for each resale. Credits could not originally be “changed back” to cash (currently, it is possible); they could only be used for further purchases. ReDigi earned a high transaction fee on each and every sale. The price of the used files varied originally between 59 and 79 USD cents (currently there are cheaper tracks as well). ReDigi retained 60% of the said price. 20% was allocated to the seller, and 20% was retained on an “escrow” fund for the respective “artist”.²¹³

- 77 Capitol Records sued ReDigi on multiple counts, and sought several different permanent and preliminary injunctions, as well as damages, attorney’s fees, costs, interests and any other appropriate relief. The plaintiff applied for a summary judgment in July 2012, and the district court granted a partial summary judgment in March 2013.²¹⁴ The present paper is only going to focus on those parts of the holding that is relevant to the discussion of the first sale doctrine.²¹⁵
- 78 As it was visible from the summary of ReDigi’s operation, the system aimed that the respective music file is always located on the hard drive rather than multiple locations. As the company stressed, files are migrated from the sellers’ computers to the Cloud Locker and between the purchasers’ account and their computers. There is no migration between the two different accounts, since in this case only the file pointer is changed to provide access to the content for the lawful user. This process is exactly what Capitol found infringing, claiming that each step of the migration leads to a new reproduction of the original sound recording. Consequently, Capitol argued, since first sale doctrine only covers the distribution but not the reproduction of copyrighted works, ReDigi’s users committed copyright infringements, and ultimately ReDigi’s service functions illegally.
- 79 The district court accepted Capitol’s claims. As the judge highlighted, “courts have not previously addressed whether the unauthorized transfer of a digital music file over the Internet – where only one file exists before and after the transfer – constitutes reproduction within the meaning of the Copyright Act. The Court holds that it does.”²¹⁶ The district court noted that it is undisputed that sound recordings are protected under U.S. copyright law,²¹⁷ and Capitol owned copyrights on several works that were transferred via ReDigi’s system. Second, sound recordings are fixed in phonorecords that are the material objects in which the sounds are fixed and “from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device”.²¹⁸ Third, *reproduction of the copyrighted sound recording occurs every time, when it is fixed in a new material object.*
- 80 Based upon the above logic, the district court showed absolute rigidity, when it followed the case law on P2P file-sharing²¹⁹ and noted that “when a user downloads a digital music file or ‘digital sequence’ to his ‘hard disk,’ the file is ‘reproduce[d]’ on a new phonorecord within the meaning of the Copyright Act.”²²⁰ The migration of the file – that is the fact that there was only a single copy at each step of the process – was deemed to be irrelevant by the judge.²²¹ Furthermore, the court found that the electronic file transfer is clearly within the meaning of the right of distribution.²²² Consequently, ReDigi’s users infringed both the right of reproduction and the right of distribution when they used the company’s service. The only chance to escape liability was to rely on the theory of fair use and the first sale doctrine. Since both of these work as affirmative defences, the burden of proof rested on the shoulders of ReDigi to prove that its system fits into the realm of the two above doctrines.
- 81 ReDigi failed on both of the defences. The district court, however, erred when it addressed the defence on fair use doctrine.²²³ The judge started from the wrong point of view when it accepted the direct liability of ReDigi for the reproduction and distribution of Capitol’s sound recordings.²²⁴ Conversely, those were the users who uploaded, migrated, sold, purchased and, finally, downloaded the music files and not ReDigi. If ReDigi is liable for these acts in any way, its liability shall be based on secondary liability doctrines rather than direct liability.²²⁵ Fair use doctrine, however, only applies to direct infringements, that is, to the acts of the users, rather than ReDigi’s. A Second Circuit precedent confirmed that “space-shifting” – that is, reproduction of sound recordings from computers to portable devices and *vice versa* – of digital contents is fair use,²²⁶ since those are the users, who create copies in the “cloud”, rather than service providers.²²⁷
- 82 This mistake of the district court needs review from the Second Circuit, especially with respect to the reasoning on the fourth statutory factor of the fair use doctrine. Here, the district court noted that the system of ReDigi is capable of interfering with the legitimate primary markets of the right holders.²²⁸ On appeal, however, circuit judges will have the ability to pay attention to the fact that the doctrine of exhaustion shall not be bound by the three-step test, and any resale of tangible copies of works

by lawful acquirers shall be accepted, even if it is against the primary economic interest of the right holders.²²⁹ To sum up: *should the concept of fair use be applicable to the upload and download of the sound recordings by private users (the reseller and the purchaser respectively), the main argument of the district court will become pointless.*

- 83 The district court's reasoning on the first sale doctrine similarly causes confusion. Relying on its own previous logic, the judge noted that "the first sale doctrine does not protect ReDigi's distribution of Capitol's copyrighted works [since] an unlawful reproduction, a digital music file sold on ReDigi is not 'lawfully made under this title.' Moreover, the statute protects only distribution by 'the owner of a particular copy or phonorecord ... of that copy or phonorecord.' Here, a ReDigi user owns the phonorecord that was created when she purchased and downloaded a song from iTunes to her hard disk. But to sell that song on ReDigi, she must produce a new phonorecord on the ReDigi server. Because it is therefore impossible for the user to sell her 'particular' phonorecord on ReDigi, the first sale statute cannot provide a defense."²³⁰
- 84 As highlighted above, it is not ReDigi who reproduced or distributed the phonograms. Furthermore, the unlawfulness of the uploaded contents is far from clear (due to the misinterpretation of the fair use doctrine). There are some further concerns that the district court's reasoning on "particular" and "that" copy is correct. Music files sold via iTunes are marked with a Persistent ID number that individually identifies the said content. The migration of the file via Media Manager and the Cloud Locker therefore leads to the duplication and transfer of an entirely identical file marked with the same ID number. From this perspective, the content sold via ReDigi is exactly "that particular copy".
- 85 The district court further argued that "the first sale defense is limited to material items, like records, that the copyright owner put into the stream of commerce. Here, ReDigi is not distributing such material items; rather, it is distributing reproductions of the copyrighted code embedded in new material objects, namely, the ReDigi server in Arizona and its users' hard drives."²³¹
- 86 If the purpose of the district court was to refer to the international norms introduced above, especially to the Agreed Statement of the WCT, its argument would be totally correct. What the judge practically said is, however, that although phonograms are deemed to be material objects under the sole definition of the USCA,²³² and the right of distribution applies to the sale of phonograms in digital format ("electronic file transfer") as well,²³³ the first sale doctrine does not apply to digital files, since they are not "material items". That is a clear *catch 22*

situation, where the judge either tries to follow the norms of international copyright law or the vague (more properly: outdated) definition of the USCA on phonograms.

- 87 Finally, ReDigi tried to satisfy the judge by policy arguments that Capitol's interpretation of the first sale doctrine would provide broader protection to the company as envisaged by the legislators. The district court refused to accept these arguments, especially since "amendment of the Copyright Act in line with ReDigi's proposal is a legislative prerogative that courts are unauthorized and ill suited to attempt. (...) [T]he first sale doctrine was enacted in a world where the ease and speed of data transfer could not have been imagined. There are many reasons, some discussed herein, for why such physical limitations may be desirable. It is left to Congress, and not this Court, to deem them outmoded."²³⁴

III. Further case law on audio books and e-books

- 88 Since both the CJEU and the BGH confirmed that the *UsedSoft* case discussed the doctrine of exhaustion solely from the perspective of computer programs, several other German courts have treated the doctrine differently with regards to other subject matter.
- 89 The first relevant decision was handed over before the CJEU's preliminary ruling was published in 2011. Here, the Federal Appellate Court of Stuttgart concluded that the download of an audio book from a web shop does not lead to exhaustion, since the latter presupposes the transfer of ownership of the physical object of the copyrighted work.²³⁵ Furthermore, the general terms and conditions of the purchase via the web shop²³⁶ provided for a use licence and, at the same time, prohibited the resale of the digital copy. The court stressed that these shall be deemed as clearly formulated, enforceable terms. The court argued that digital contents are subject to easy reproduction, and therefore copyright holders deserve the right to authorize further uses of these contents.²³⁷ Furthermore, although the web shop used expressions on its website, like "purchase" ("Kauf"), "purchase price" ("Kaufpreis") or "basket" ("Warenkorb"), none of these prove that the service offered shall lead to a transfer of ownership of the audio books. Indeed, a reasonable purchaser could properly understand that these terms are used functionally, and he could easily understand the contractual terms as well (especially the prohibition on resale).²³⁸
- 90 In another case, an association designed for consumer protection sued an online bookstore to enforce the applicability of the doctrine of exhaustion on

audio books sold and offered for download via the defendant's website. The Federal Appellate Court of Hamm followed the lower court's arguments,²³⁹ and refused the plaintiff's claims.²⁴⁰

- 91 The court analyzed defendant's general terms and conditions²⁴¹ from two perspectives. First, whether it is clear enough to be understood by an average client as it was designed for by the company. This question was answered positively when the wording of the terms was declared to be clear and understandable for anyone having a minimal technological knowledge, as well as declaratory and constitutive enough to make it clear that the contract allows only for a limited, non-alienable right to use the copyrighted work.²⁴²
- 92 The court further discussed whether the general terms and conditions properly prohibited the resale of audio books, or on the contrary – as plaintiff asserted – if it contradicted CJEU's *UsedSoft* ruling, consequently and unlawfully limiting purchasers' freedom to transfer the ownership acquired on the copies of works. Here again, the appellate court refused plaintiff's arguments. Irrespective of the fact that the court improperly called the online transfer of audio books streaming,²⁴³ it followed the mainstream interpretation of WCT and the InfoSoc Directive by declaring the transmission of data as making available to the public rather than distribution. To reach that conclusion, the panel relied both on the existing case law on the exhaustion of distribution right related to audio books (including the OLG Stuttgart decision introduced above) and on the justification for the implementation of the making available to the public right by the German Parliament.²⁴⁴
- 93 The appellate court further analyzed a draft bill that was submitted to the German Parliament by the parliamentary group "Die Linke" in 2012.²⁴⁵ This document called for the amendment of the German Copyright Act to allow for the resale of the copies of works by the lawful acquirer if no further copies are retained by the reseller, and if the copies are furthermore not made available to the public.²⁴⁶ The appellate court concluded that since the proposal was refused by the German Bundestag in 2013, the legislator has been unwilling to amend to *status quo*.²⁴⁷ Finally, the appellate court also excluded the application of the *UsedSoft* decision, since it referred to a different subject matter, namely computer programs that were specifically treated by both the European and the German legislators.²⁴⁸
- 94 The most recent debate over digital resale of literary works originates from the Netherlands. There, a start-up called Tom Kabinet was launched in June 2014. The founders of the site aimed to support personal users to sell and purchase lawfully acquired "used", DRM-free e-books.²⁴⁹ Only eight

days after it started to operate, Tom Kabinet was already threatened with suits by the Dutch Trade Publishers Association. The latter treated the new service as illegal, even though Tom Kabinet planned to keep 20% of the purchase price of each and every e-book sold through its system on an escrow fund for the benefit of the specific author.²⁵⁰ After an unsuccessful negotiation, the association initiated a suit against Tom Kabinet and requested preliminary injunctions against the website. The competent court refused to order those preliminary injunctions, claiming that it is not self-evident under the *UsedSoft* decision that the resale of used e-books is precluded under European law.²⁵¹ Bodewits noted that "[a] lot of emphasis was placed on the fact that Tom Kabinet adds a new watermark to the e-book after it has been purchased in an attempt to prevent trade in illegal copies. Although this may not be sufficient to prevent all illegal trade, the interim relief judge considered that further protective measures could not have been implemented without cooperation of the publishers. Moreover, the interim relief judge was clear that the behaviour of the publishers, by not replying to the invitation to discuss participation but instead initiating interim relief proceedings, was a step too far given the good intentions of Tom Kabinet."²⁵² The Dutch Court of Appeals (Hof Amsterdam) similarly refused to order the shut-down of Tom Kabinet. The panel concluded in its preliminary ruling that it is uncertain without a full trial whether the service offered by Tom Kabinet would be excluded under EU law.²⁵³

D. The critical analysis of the case law on digital exhaustion

- 95 The massive case law introduced above requires some critical analysis. There are at least four different questions that need to be discussed to have a proper understanding of the courts' view on digital exhaustion.
- 96 The first question compares the opinion of the courts on the *licence versus sale* problematic. The second question mirrors the crucial question of whether the transfer of digital contents via the internet shall be deemed as distribution (in the form of sale) or making available to the public; that is, the *umbrella solution* needs to be reviewed. The third question focuses on the *transfer (migration) of digital copies via the internet* and discusses whether this kind of reproduction is a barrier of the application of the doctrine of exhaustion *per se*. Finally, the fourth topic relates to the different subject matter involved in the proceedings, more specifically to the issues of *lex specialis* and the theory of *functional equivalence*.
- 97 It needs to be highlighted, however, that only a small number of cases introduced above focused

purely on the theory of exhaustion in the digital environment. The *UsedSoft* case involved the resale of *end user licences* rather than the actual computer program. Other German cases focused on the resale of online *accounts* to computer games, resale of *certificates of authenticity*, the *split of volume licences*, or the alienation of *physical data carriers*.²⁵⁴ Some of these proceedings had important contract law perspectives, as well, where the validity of terms and conditions were at stake rather than any actual resale of a digital file. Only the *ReDigi* decision and the *Tom Kabinet* case represent a pure digital exhaustion issue.

I. Licence versus sale

- 98 The comparison of the court decisions shall begin with the analysis of the licence versus sale dichotomy. The relevance of this question is extremely important. Licence allows for the use of the original or the copy of the work other protected subject matter, and the conclusion of a licence contract does not involve the sale or any other form of transfer of ownership of the said work or other protected subject matter. Consequently, there is no way to apply the doctrine of exhaustion in the case of a licence/use contract.
- 99 The relevant court decisions show a significant difference in relation to this issue. One of the extremes was expressed by the CJEU in the *UsedSoft* case. There, the court highlighted that a licence might be characterized as a sale if the right to use a computer program (1) lasts for an indefinite period, and (2) “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”.²⁵⁵ Furthermore, (3) merely calling a contract a licence is not enough “to circumvent the rule of exhaustion and divest it of all scope”.²⁵⁶
- 100 The CJEU’s opinion has been criticized by many commentators.²⁵⁷ Stothers noted, for example, that it is not the judges’ task to limit the available remuneration for the right holders. As Stothers claimed: “intellectual property normally provides an exclusive right (an absolute right to exclude others from using the intellectual property) and just a right to ‘reasonable’ royalties. The actual value of the rights is then determined by negotiation in the marketplace.”²⁵⁸ Contrary to his opinion, however, the CJEU did not take any steps towards limiting the freedom of right holders to negotiate the value of their rights. What the CJEU said is that the right of distribution is exhausted as soon as the protected subject matter is put into circulation by or with the consent of the right holder in exchange for a *reasonable remuneration*. The CJEU noted in another notable preliminary ruling that right holders might demand reasonable remuneration rather than “the highest possible remuneration”.²⁵⁹ This theory has been described by the German copyright law as “reward theory” (“*Belohnungstheorie*”), and thus it is neither a rootless argument, nor is it irrational to rely on by the CJEU.²⁶⁰
- 101 An important concurring opinion needs to be taken here. According to the CJEU, sale equals to the transfer of ownership rights in tangibles or intangibles.²⁶¹ Such a bright line rule shall not be generally followed. What property means depends upon the legislation of the respective country. In Austria, for example, property might exist on intangibles, as well.²⁶² Germany regulates it the opposite way.²⁶³ This is why Oracle claimed it correctly in front of the BGH in 2013 that the CJEU intruded into Germany’s freedom to regulate its property system.²⁶⁴ The verbal gymnastics used by the BGH, according to which the CJEU did not determine the definition of ownership but declared the transfer of ownership as a sale, is pointless. The CJEU specifically stressed that, under sale, someone “transfers to another person his rights of ownership in an item of tangible or intangible property belonging to him”.²⁶⁵
- 102 On the other hand, German courts take the position that computer program might be subject to sale.²⁶⁶ German academia similarly confirms that computer programs, like any other intangibles might be sold, even though under the provisions of the German Civil Code this does not lead to the transfer of ownership, since ownership might only exist over physical goods rather than intangible data. Contrary to the above, the German audio book decisions have taken the stance that the doctrine of exhaustion might only be applied where the distribution involves the transfer of ownership on the protected subject matter.²⁶⁷ With respect to audio books as digital data, this requirement cannot be met.²⁶⁸ In summation, the CJEU improperly noted – at least in respect of German domestic law – that sale might include the transfer of ownership on *intangibles*.
- 103 The CJEU’s argumentation might remain acceptable, however, if we focus only on the expression of “sale” rather than “transfer of ownership”. The sale of rights (“*Rechtskauf*”) is clearly accepted under the German Civil Code,²⁶⁹ and therefore the sale of copyrighted content via the internet shall remain out of the scope of Recital 29 of the InfoSoc Directive.²⁷⁰
- 104 Two further notes need to be added. German case law confirms that a licence to use a protected subject matter might be transferred by the licensee to a new licensee with the permission of the original licensor.²⁷¹ Since Oracle’s original licence contracts explicitly precluded the transfer of the respective licence and *UsedSoft* ultimately purchased and resold

licenses rather than copies of computer programs without proper authorization, CJEU's argumentation seems to be totally misleading. UsedSoft's practice might be declared *ab ovo* illegitimate under the relevant provision of the German Copyright Act.

- 105** U.S. federal courts have similarly confirmed that the conclusion of use contracts might ultimately lead to the sale of computer programs.²⁷² The Ninth Circuit introduced a balanced analysis of several factors in its *Wise* decision when it interpreted several contracts for the use of film reels. These factors included the designation of an agreement as a license; the reservation of title in the copyright holder; a single, upfront payment by the transferee for a particular copy; the requirement to destroy the transferred copies; significant restrictions on the terms of use; and the inability of the right holder to regain possession.²⁷³ The Ninth Circuit held that especially those contracts led to a sale rather than a licence, where the transferee paid a single, upfront payment for the film reels; and where it was impossible to return the said reels to the right holders, or it was not required to do so, the transferee's possession over the copy was, consequently, for an indefinite period.²⁷⁴
- 106** The opposite position is mirrored by the German audio books decisions, where the clear contractual prohibition on the resale of the audio books was declared to be the decisive factor in the analysis. Similar to the *Wise* holding, but directly with an opposite result, the expressions used by the online booksellers ("purchase" ["*Kauf*"], "purchase price" ["*Kaufpreis*"] or "basket" ["*Warenkorb*"]) turned out to be irrelevant.²⁷⁵
- 107** Many U.S. court judges reached the same conclusion,²⁷⁶ and two of these rulings deserve special attention here. First, the *Aftermath* case focused on the exploitation of the rights to Marshall B. Mathers III.'s (a.k.a. Eminem's) sound recordings. F.B.T. Records, the original sound recording producer, contracted with Aftermath Records about the sale of the sound recordings via multiple channels (including iTunes), especially as ringtones. Aftermath was allowed to sell the tracks either as "single records"²⁷⁷ or as copies produced from a licensed master copy.²⁷⁸ The royalty rate for each sold record was 12-20%, whilst Aftermath owed 50% for each copy produced from a master. The Ninth Circuit ultimately held that Aftermath provided only a master to each of its business partners, and allowed for the reproduction of that master in an unlimited number. Consequently, neither iTunes, nor end-users received a proprietary interest over the copy they received. The contract was categorized as a licence rather than a sale.²⁷⁹
- 108** Only a week after the publication of the *Aftermath* decision, the Ninth Circuit handed over another important ruling in the *Vernor v. Autodesk* case. Timothy Vernor purchased a copy of the AutoCAD Release 14 program at a garage sale in 2005, and ten further copies from the Cardwell/Thomas & Associates in 2007. Vernor later sold several copies of the computer program on eBay. Purchasers of the CDs were expressly warned on the cover of the carrier that the program is only licenced for use and that a use contract is concluded by the installation of the computer program. Should the purchaser disagree with these terms, Autodesk – the producer of the computer program – guaranteed a full refund upon return of the CD. Importantly, Vernor did not ever install any copy of the computer program, nor did he open any of the CDs' covers.²⁸⁰
- 109** Under the software licence agreement, Autodesk retained title to all copies; granted customers a nonexclusive and non-transferable license to use the computer program; imposed transfer and significant use restrictions; provided for license termination, should the user produce an unauthorized copy of the computer program or infringe the above restrictions. Finally, the agreement required the destruction of the original copy of the computer program, should the user upgrade to a newer version of the program.²⁸¹
- 110** The district court followed the detailed analysis set by the *Wise* court and concluded that Vernor's possession over the copy was for an indefinite period, and therefore the reservation of the title in Autodesk was invalid. More factors favoured Vernor and the applicability of the first sale doctrine than Autodesk and the exclusion of the doctrine.²⁸²
- 111** The Ninth Circuit reversed the district court's decision. First, the circuit judges noted that "we considered [in the *Wise* decision] whether the agreement (a) was labeled a license, (b) provided that the copyright owner retained title to the prints, (c) required the return or destruction of the prints, (d) forbade duplication of prints, or (e) required the transferee to maintain possession of the prints for the agreement's duration."²⁸³ Quite interestingly, the circuit judges did not take into account two of those factors that the district court relied on and that clearly favoured Vernor: the single, upfront payment and the possession of the copy for an indefinite period. Second, the Ninth Circuit stressed that "[w]e read *Wise* and the MAI trio to prescribe three considerations that we may use to determine whether a software user is a licensee, rather than an owner of a copy. First, we consider whether the copyright owner specifies that a user is granted a license. Second, we consider whether the copyright owner significantly restricts the user's ability to transfer the software. Finally, we consider whether the copyright owner imposes notable use restrictions."²⁸⁴ Based upon these three – quite restrictive – factors, the Ninth Circuit ultimately

concluded that Autodesk did only licence the use of the AutoCAD program but, consequently, any resale of the copies was prohibited.²⁸⁵

112 The Supreme Court refused to grant certiorari in the case,²⁸⁶ and therefore implicitly accepted the Ninth Circuit's holding, that on the other hand received harsh criticism.²⁸⁷ First, the facts of the cases that the circuit judges referred to (that is, *Wise* and *MAI* trio) were quite different than the facts in the *Vernor* case. For example, two prongs of the *MAI* trio – the *MAI Systems* and the *Triad Systems* decisions – related to the maintenance or repair of the computers that the protected computer program was installed on. During the first half of the 1990's, only *lawful owners, not licencees*, of the computer programs were allowed to reproduce the computer programs for maintenance purposes. Without entering into any deep discussion of the contract that the software producers and the companies concluded, the Ninth Circuit held that the defendants were only licencees, and therefore they illegally produced copies of the program. The irrationality of this restriction was later acknowledged by the U.S. Congress when it enacted the Computer Maintenance Competition Assurance Act in 1998. Under the amendment, lawful licencees are allowed to use the computer program for maintenance and repair purposes as well.²⁸⁸ To put it differently, two of those decisions that the Ninth Circuit relied on in the *Vernor* case were already overruled by the Congress by 1998.

113 Another compelling reason for the criticism might be deducted from another decision handed over in the same circuit (although not by the Ninth Circuit itself). The *SoftMan v. Adobe* decision confirmed that the terms of the licence agreement do not bind the purchaser of the computer program if he misses to install the software.²⁸⁹ It might be important to recall that *Vernor* never installed any of the AutoCAD program on his computer. Furthermore, the *SoftMan* court stressed that “the circumstances surrounding the transaction strongly suggests that the transaction is, in fact, a sale rather than a license. For example, the purchaser commonly obtains a single copy of the computer program, with documentation, for a single price, which the purchaser pays at the time of the transaction, and which constitutes the entire payment for the ‘license’. The license runs for an indefinite term without provisions for renewal. In light of these indicia, many courts and commentators conclude that a ‘shrink-wrap license’ transaction is a sale of goods rather than a license.”²⁹⁰

114 Oddly, the *ReDigi* court did not analyze the licence versus sale dichotomy in detail, although this issue could have had clear relevance, especially in light of the *Aftermath* holding (and the involvement of iTunes in the debate). There is slight indicium that the court took the view – as defendant claimed and as commentators stressed it as well – that iTunes

originally sold rather than licenced the tracks that were later uploaded to ReDigi's Cloud Locker. The court observed that “[h]ere, a ReDigi user owns the phonorecord that was created when she purchased and downloaded a song from iTunes to her hard disk.”²⁹¹

115 All in all, the CJEU did not commit a failure when it declared Oracle's licence agreement as a sale. A contract that allows for a possession/use of the work for an indefinite period, in exchange for a single, upfront payment results in a sale.²⁹² Similarly, it is not the expressions used by the seller but the content of the agreement which shall be decisive. As a consequence, the present paper opines that *the above factors prevail over the reservation of the title or any use restrictions applied by the seller*. Ultimately, the above argument means that digital content might be sold (even though it will not lead to the transfer of ownership over physical goods) and, consequently, might fall under the concept of distribution.

II. Distribution versus making available to the public

116 Since exhaustion only applies to the right of distribution, it is crucial to decide how we should categorize the *sale of digital contents via the internet from the point of view of copyright law*.

117 It might be important to recall that the *USCA* reserves the right to “distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending” to the owner of the copyright.²⁹³ Similarly, under the *InfoSoc Directive*, “Member States shall provide for authors, in respect of the original of their works or of copies thereof, the exclusive right to authorise or prohibit any form of distribution to the public by sale or otherwise”.²⁹⁴ All of these provisions are backed by the *WCT's* definition of distribution. Under this, “[a]uthors of literary and artistic works shall enjoy the exclusive right of authorizing the making available to the public of the original and copies of their works through sale or other transfer of ownership.”²⁹⁵ Historically, the right of distribution was going to mean the commercialization of physical, tangible copies.

118 As Chapter B.I. introduced above, with the rise of the internet age, a solution was needed to handle online uses. The so-called umbrella solution was codified by the *WCT* and *WPPT*. Proponents of this theory envisaged the general, technology-neutral making available to the public right to cover *each and every on-demand transmission* of data via the internet. However, they left Member States' freedom unaffected to implement that right in their domestic laws. Consequently, signatories of the treaties were

allowed to introduce that right within the frames of the right of communication to the public (the European Union did so) or the right of distribution (the United States of American did – most probably – so). That is, the content, rather than the form was important. The only requirement was to provide protection for right holders with respect to such uses where the end-user might access the content from a place and at a time freely chosen by him, no matter which way.²⁹⁶

119 Since the U.S. did not implement the treaty language, the most probable scenario is that the right of distribution covers the making available to the public right, as well. Any other interpretation would mean that the *USCA* is contrary to the *WCT/WPPT*. In light of this interpretation, the district court's holding that an electronic file transfer is within the meaning of distribution shall be deemed correct.²⁹⁷ The Federal Appellate Court of Hamm followed a similar argument.²⁹⁸ The CJEU accepted that the transfer of data via the internet fits generally into the communication rights, and especially into the making available to the public right.²⁹⁹ There is one significant difference between the latter and the earlier decisions. As the CJEU noted: "the transfer by the copyright holder to a customer of a copy of a computer program, accompanied by the conclusion between the same parties of a user licence agreement, constitutes a 'first sale ... of a copy of a program' (...) [T]he existence of a *transfer of ownership* changes an 'act of communication to the public' provided for in Article 3 of [the *InfoSoc*] directive into an act of distribution referred to in Article 4 of the [*InfoSoc*] directive." (Emphasize added.)³⁰⁰

120 *In fact, the CJEU differentiated between two types of uses via the internet.* In the first scenario, uses that do not lead to the permanent reproduction or sale of any copy of a protected subject matter shall be governed by the making available to the public right. Such an example might be the posting of content on a website (for example a journal article on The New York Times' home page), on-demand streaming (services offered by YouTube, Pandora, Spotify etc.) or dissemination of files via P2P file-sharing applications. Under the second scenario, a permanent copy is received by the end-user in exchange for a purchase price and is retained on a permanent basis. The best example might be the purchase of a track from iTunes. Another example is exactly mirrored by the *UsedSoft* case. The CJEU declared this second category of uses to be sale and, consequently, distribution of copyrighted subject matter, rather than making available to the public.

121 Many commentators criticized the above logic.³⁰¹ At first glance, they might be correct. The right of making available to the public was harmonized by the *InfoSoc* Directive (in accordance with *WCT/WPPT*) and covers every subject matter protected under

the EU copyright law. This means that the *InfoSoc* Directive and the *WCT/WPPT* have a commanding role when interpreting the *Software Directive* and the online transmission of computer programs.

122 If we examine, however, both the exact wording of the making available to the public right, as well as the business model used by *UsedSoft*, *ReDigi*, *Tom Kabinet* and all the other companies, the standard logic of the umbrella solution deserves some criticism. The said right is formulated as follows: "making available to the public of their [works/phonograms/performances fixed in phonograms] in such a way that members of the public may access these [works/phonograms/performances fixed in phonograms] *from a place and at a time individually chosen by them*".³⁰² Although the business models of the affected companies are generally available to any member of the public, access to a specific content is only conditional, to put it differently, *not on-demand*. One important obstacle hampers users from accessing the contents "from a place and at a time individually chosen by them". They need to accept the terms of the sale; that is, they have to purchase the subject matter under specific conditions. Ultimately, *access to protected subject matter is not on-demand but "pay-walled"*. It is therefore not irrational to draw a line between different uses of end-users conducted on the internet, as the CJEU envisaged that.³⁰³ Viewed from this perspective, the judicial activism of the CJEU deserves handshake rather than criticism.

123 Sadly, the CJEU's ruling is not absolutely comparable with the other decisions introduced above, especially not with the German audio book cases. There, the decisive factor was the contractual interpretation of the agreement of the parties, rather than the copyright aspects of the supply of digital media. Furthermore, the *ReDigi* case focused on the distribution versus reproduction dichotomy, rather than the making available to the public right.

III. New copy versus migration & forward-and-delete technologies

124 As stressed above: the doctrine of exhaustion applies only to the right of distribution and, consequently, not to the right of reproduction. Although the EU (and almost all Member States') copyright law allows for the copying for private purposes, and it might be accepted under the fair use doctrine as well, this limitation of the reproduction right shall not in any way lead to the broadening of the first-sale doctrine's reach. To put it differently, under the doctrine of exhaustion the lawful acquirer of a protected subject matter might only resell "that particular" copy that he owns/possesses, and consequently the creation

of a “new copy” might lead to the exclusion of the doctrine’s applicability.

- 125** This latter “new copy theory” is nothing new under the sun. It has been articulated for quite some time that the transmission of digital contents via the internet leads to the reproduction of the protected subject matter on the end-users computer, and any further transmission of the bits – even within the same computer – results in a new copy. As the U.S. Green Paper highlighted: “the system encompassed by sections 106(3) and 109(a) appears to ‘fit’ only ‘conventional’ transactions in which possessory interests in tangible copies are conveyed in the first instance (...) Electronic disseminations, by contrast, typically involve the proliferation of copies, with the ‘publisher’ retaining its copy and the user acquiring a new one.”³⁰⁴ Similarly, the U.S. White Paper noted that “the first sale doctrine does not allow the transmission of a copy of a work (through a computer network, for instance) because, under current technology, the transmitter retains the original copy of the work while the recipient of the transmission obtains a reproduction of the original copy (i.e., a new copy), rather than the copy owned by the transmitter.”³⁰⁵
- 126** The court decisions introduced above show a significant difference in opinion when reviewing this “new copy theory”.
- 127** The *UsedSoft* decision seems to sidestep this concept. The judges noted that “[s]ince the copyright holder cannot object to the resale of a copy of a computer program for which that right holder’s distribution right is exhausted under Article 4(2) of Directive 2009/24, it must be concluded that a second acquirer of that copy and any subsequent acquirer are ‘lawful acquirers’ of it within the meaning of Article 5(1) of Directive 2009/24. Consequently, in the event of a resale of the copy of the computer program by the first acquirer, the new acquirer will be able, in accordance with Article 5(1) of Directive 2009/24, to download onto his computer the copy sold to him by the first acquirer. Such a download must be regarded as a reproduction of a computer program that is necessary to enable the new acquirer to use the program in accordance with its intended purpose.”³⁰⁶ If we combine this argument with the CJEU’s note that the download (reproduction) of a computer program and the conclusion of a licence agreement (ultimately classified as sale) shall be examined as an “indivisible whole”,³⁰⁷ it seems that the CJEU broadened the scope of the exhaustion doctrine.
- 128** Such a claim is not entirely accurate. First, in the *UsedSoft* case, no computer program was technically transferred between the clients of the company, and the new purchaser acquired a copy from Oracle’s freely accessible website. Only licence keys were

transferred. Second, the CJEU referred to a specific provision of the Software Directive. Under Article 5(1): “[i]n the absence of specific contractual provisions, [permanent reproduction of a computer program] shall not require authorisation by the right holder where they are necessary for the use of the computer program by the lawful acquirer in accordance with its intended purpose, including for error correction.” Consequently, if CJEU’s “indivisible whole theory” is correct, and the second (and any later) acquirer of the licence key is a lawful acquirer of the computer program, then the lawful acquirer is allowed to reproduce the said computer program.

- 129** On the other hand, the “new copy theory” is followed in the German audio book cases³⁰⁸ and by the *ReDigi* holding.³⁰⁹
- 130** Still, the complicated nature of the “new copy theory” is clearly mirrored by the following argument. The *ReDigi* court concluded that “[s]ection 109(a) still protects a lawful owner’s sale of her ‘particular’ phonorecord, be it a computer hard disk, iPod, or other memory device onto which the file was *originally* downloaded”.³¹⁰ A similar argument was formulated by the Federal Appellate Court of Hamm in 2014.³¹¹ Likewise, the US White Paper opined in 1995 that “the first sale doctrine should apply if the particular copy involved is, in fact, the copy that is further distributed, even if the copy was first obtained by transmission. Furthermore, if the technology utilized allows the transmission of a copy without making an unlawful reproduction – i.e., no copy remains with the original owner – the first sale doctrine would apply and the transmission would not be an infringement.”³¹² Although these thoughts are based on the logical interpretation of the respective copyright law, they are far from reality in several cases. It is true that media contents might be directly downloaded to a memory stick, an exterior hard-drive, a Smartphone, or mp3 players. However, average users, who are absolutely strangers to the small nuances of copyright, quite often download the content first to their computer’s hard drive and reproduce the file on any device thereafter. Sometimes they first “move” the file to another folder of the computer. Conversely, some devices, especially those produced by Apple (iPod, iPad, iPhone), need to be connected to a computer first, in order to allow the iTunes to synchronize the user’s account (files kept in the user’s iTunes library) and the device. To put it differently, in several cases, portable devices might only be indirectly carrying digital contents that shall be ultimately categorized as “not that particular copies”.³¹³
- 131** Another problem arises if the original acquirer produces a copy of the lawfully purchased copy of the work, keeps the copy for himself, and later sells the original data carrier. This behaviour is clearly

against the scope and purpose of the doctrine of exhaustion and has therefore been criticized by academia.³¹⁴ Some statutes also explicitly prohibited such activities,³¹⁵ and U.S. case law similarly suggests that copies made incidental to sale are excluded from the scope of the fair use (that otherwise might cover private copies).³¹⁶

132 All of these concerns lead us to quite an important question that is mirrored by the *ReDigi* case, where it was called “migration”. This issue ultimately relates to the so-called forward-and-delete technologies. Under *ReDigi*’s original concept of migration, the legally purchased iTunes tracks were erased simultaneously with the transmission of the content (and all related metadata) to *ReDigi*’s Cloud Locker. To put it differently, there was always only one single copy of the said digital file. The question of forward-and-delete technologies was already refuted by the U.S. White Paper in 1995. According to the report: “[s]ome argue that the first sale doctrine should also apply to transmissions, as long as the transmitter destroys or deletes from his computer the original copy from which the reproduction in the receiving computer was made. The proponents of this view argue that, at the completion of the activity, only one copy would exist between the original owner who transmitted the copy and the person who received it – the same number of copies as at the beginning. However, this zero sum gaming analysis misses the point. The question is not whether there exists the same number of copies at the completion of the transaction or not. The question is whether the transaction, when viewed as a whole, violates one or more of the exclusive rights, and there is no applicable exception from liability. In this case, without doubt, a reproduction of the work takes place in the receiving computer. To apply the first sale doctrine in such a case would violate the reproduction right.”³¹⁷

133 Only a few years later, the U.S. Copyright Office expressed some openness towards the applicability of the forward-and-delete technology. Although the DMCA Section 104 Report stated that “[u]nless a ‘forward-and-delete’ technology is employed to automatically delete the sender’s copy, the deletion of a work requires an additional affirmative act on the part of the sender subsequent to the transmission. This act is difficult to prove or disprove, as is a person’s claim to have transmitted only a single copy, thereby raising complex evidentiary concerns. There were conflicting views on whether effective forward and delete technologies exist today. Even if they do, it is not clear that the market will bear the cost of an expensive technological measure.”³¹⁸ Ultimately the Register of Copyrights recommended no changes to the first-sale doctrine.³¹⁹ The report especially stated that “[r]elying on a ‘forward-and-delete’ technology is not workable either. At present, such technology does not appear to be

available. Even assuming that it is developed in the future, the technology would have to be robust, persistent, and fairly easy to use. As such, it would likely be expensive – an expense that would have to be borne by the copyright owner or passed on to the consumer. Even so, the technology would probably not be 100 percent effective. Conditioning a curtailment of the copyright owners’ rights on the employment of an expensive technology would give the copyright owner every incentive not to use it. In the alternative, it would be damaging to the market to expand section 109 in anticipation of the application of technological protection measures, thus giving the copyright owner a choice between significantly increased expenses, significantly increased exposure to online infringement, or not offering works online.”³²⁰

134 Forward-and-delete technologies have been improved a lot since 2001. Although it is still a recurring argument to question the effectiveness of such methods,³²¹ this might be superficial. There have been no technologies (neither analogue, nor digital) that turned out to be able to perfectly control the use of protected subject matter. The introduction of digital rights management or technological protection measures was not a success.³²²

135 The development of forward-and-delete technologies might be evidenced through at least three different models. The one introduced by *ReDigi* might be claimed to be easy to circumvent. However, this argument is simply one-sided. It might be true that end-users kept the possibility to produce a copy on portable devices, but they might only use these tools effectively if they never ever synchronize them with the computer on which *ReDigi*’s Media Manager has been installed. The user might forget the fact that he copied the relevant work on a memory stick or an iPod (especially the latter), however, Media Manager won’t. Ultimately, the suspension of the user’s account until the erasure of the illegal copies represents quite a severe sanction, and has a clear deterring effect against any illicit activities.

136 Other companies, like Apple and Amazon took similarly steps towards introducing digital second-hand marketplaces.³²³ As a guarantee of the legality of these services, both companies submitted a patent application to the U.S. Patent and Trademark Office. The patent was issued to Amazon, with respect to its technology in January 2013.³²⁴ Apple’s patent application is still pending. Both of these systems are based on the technological control of the simultaneous erasure of contents once sold through the online marketplace; the payment of a specific percentage of the generated revenue to the right holders. Amazon’s patent similarly sets an artificial limitation on the number of copies that might be produced from the original copy.³²⁵ None of these services were launched yet. Furthermore, their

economical effectiveness was also questioned. Nonetheless, the fact that Amazon successfully applied for a patent proves that these technologies are present and provide workable and – most probably – effective solutions for the resale of digital contents via the internet.

137 In light of these improvements on the field of forward-and-delete technologies, we need to agree with Karjala. He noted that “[w]hether erasure takes place immediately after transfer or whether the transfer takes place one byte at a time with erasure occurring as part of the ongoing process makes no difference to the end result or to the position of the copyright owner once the process has finished. Yet, if the byte-by-byte process, including erasure, is deemed the making of an unauthorized copy, the first-sale doctrine is for all practical purposes a dead letter in the digital age.”³²⁶ Similarly, Spedicato, whilst referring to the *Dior/Evora* ruling of the CJEU,³²⁷ claimed that “copyright holders may not invoke their exclusive rights for the purpose of preventing legitimate purchasers of a protected good from reselling that good and thus may not prevent purchasers from reproducing the work or making any other use of it *as long as that use is only functional to the purpose of reselling the good*”.³²⁸ Ultimately, Spedicato opined that “the moment a copy of the work is sold by the right holder or with the right holder’s consent, the exclusive right to control any further circulation of that copy is exhausted, regardless of whether the copy is tangible or intangible. This means that the first purchaser should be free to resell that copy to a subsequent purchaser while deleting his own copy, without having to obtain the right holder’s consent”.³²⁹

138 Another outcome of the rigid application of the exclusive rights might be that enterprises will find alternative technological ways to circumvent the mere language of the statutes. Such a notable example arrived. The owners of ReDigi introduced an amended version of their system, called ReDigi 2.0. The most important difference, when compared to the earlier model, is that users of the service are able to download their legally purchased iTunes tracks directly to ReDigi’s servers, specifically to their Cloud Locker account. Such a “first download” was declared by most aforementioned sources (especially the U.S. Green and White Papers) as a lawful step of the transmission of the purchased content. Consequently, in ReDigi 2.0’s system, no reproduction takes place when the files are resold to a new user, since only the file pointer is overwritten. This way, the new user receives access to the content, whilst the seller loses that right. Clearly, such a model does not contradict the “new copy theory”. Should the users (either the original purchaser or the new one) download the content to their computers (and later synchronize the file to their iPods or other portable devices), this act shall be governed by the fair use

doctrine³³⁰ or the private copying exception under InfoSoc Directive.

139 Should the users’ activity be deemed fair use, however, ReDigi would be clearly protected under the “staple article of commerce test” developed by the Supreme Court of the United States. The test, that was transplanted from the field of patent law into copyright law by the famous *Sony v. Universal* case, stresses that “[t]he sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes, or, indeed, is merely capable of substantial noninfringing uses”.³³¹ Since that time, this doctrine has been followed multiple times by federal judges, including in digital copyright cases.³³² Nonetheless, ReDigi 2.0 still does not offer any solution to the general concerns of right holders regarding users’ secondary reproduction activities. Under the new model, users are still able to produce substitute copies on portable devices or other data carriers before selling the files on ReDigi’s marketplace.³³³

IV. IV. Subject matter, *lex specialis* and the theory of functional equivalence

140 The subject matter and the right holders affected by the court aforementioned proceedings show great diversity, as well. This diversity has been usually discussed from the perspective of whether rules on computer programs represent a special law (*lex specialis*), and especially whether computer programs deserve different treatment, with respect to the doctrine of exhaustion compared to all of the other subject matter (sound recordings of musical compositions; sound recordings of literary works, that is, audio books; e-books).

141 At first sight, the answer might be negative. Computer programs are protected like literary works under the leading international IP norms.³³⁴ On closer inspection, however, especially with respect to the law of the European Union, the answer is not that simple. The EU rulings on computer program protection show several major differences compared to those on literary works.³³⁵ This is similarly proven by the fact that the protection of computer programs has been introduced, separately from the norms of other types of works, by many legislators.³³⁶ Related to the doctrine of exhaustion, the Software Directive does not make any distinction between tangible and intangible copies of computer programs, unlike the InfoSoc Directive via Recital 29. This is clearly reasoned by the fact that the use of computer programs – as the archetype of digital contents – is absolutely independent from the initial carrier of the

data. Accordingly, source and object code is equally protected by copyright law.³³⁷

142 The CJEU correctly noted that “from an economic point of view, the sale of a computer program on CD-ROM or DVD and the sale of a program by downloading from the internet are similar. The on-line transmission method is the functional equivalent of the supply of a material medium.”³³⁸ Indeed, the above argument is also true from a technological point of view. Due to the fact that the source code needs to be entered into the memory of a computer in order to use the computer program, it is irrelevant whether that code (and consequently the protected subject matter) is copied to the computer from a DVD or from a file made available to the public via the internet. The creation of a copy (installation) on the computer is inevitable and therefore lawful.³³⁹

143 Still, the above logic is partially flawed. The reasoning of the CJEU, as it is continued in the same paragraph quoted above, highlights an important problem of the European *acquis communautaire*. According to the judges, “[i]nterpreting Article 4(2) of Directive 2009/24 in the light of the principle of equal treatment confirms that the exhaustion of the distribution right under that provision takes effect after the first sale in the European Union of a copy of a computer program by the copyright holder or with his consent, regardless of whether the sale relates to a tangible or an intangible copy of the program.”³⁴⁰

144 Should the right of distribution apply to the online delivery of computer programs, the CJEU either wilfully blinded itself³⁴¹ or made a mistake when it disregarded the WCT Agreed Statement. Since the WCT did not provide any specific right of distribution or exhaustion related to computer programs, the general rule should prevail for computer programs as well. Although the right of distribution represents a minimal right under the WCT, signatories of the treaty are able to provide for stronger protection to right holders.³⁴² The CJEU’s above logic envisaged a weaker protection for right holders, with respect to computer programs. Furthermore, any argument according to which the Agreed Statement of the WCT does not apply to computer programs because the Council introduced the original Software Directive with different content earlier than the WCT was accepted, making it *lex specialis*, is misleading.³⁴³ The European Union aimed at implementing the WCT by the InfoSoc Directive.³⁴⁴ Consequently, the respective provisions of the WCT have become part of the EU law. The latter directive regulates a general right of distribution and includes a general exhaustion doctrine. None of these provisions are differentiated regarding the affected subject matter. It is correct that the InfoSoc Directive left the “specific provisions on protection provided for by Directive 91/250/EEC” untouched.³⁴⁵ At the same time, however, the directive stressed that “[t]his

Directive is based on principles and rules already laid down in the Directives currently in force in this area, in particular Directives 91/250/EEC (...), and it develops those principles and rules and places them in the context of the information society. The provisions of this Directive should be without prejudice to the provisions of those Directives, *unless otherwise provided in this Directive*.”³⁴⁶ (Emphasis added.) Recital 29 of the InfoSoc Directive is such an “other provision”. Consequently, *the special application of the principle of exhaustion with regards to computer programs sold in intangible format is contrary to the general rules of international IP norms and the special rules of the EU*.³⁴⁷ This inconsistency shall not be accepted even if the CJEU referred to the application of the principle of equal treatment.³⁴⁸

145 The question arises, whether the functional equivalence theory might be applicable to copyrightable subject matter other than computer programs as well. Did the U.S. American and German courts correctly exclude the application of the doctrine of exhaustion in the *ReDigi* and the audio book cases in respect of the resale of digital sound recordings/audio books via the internet? Referring back to the CJEU’s point according to which the online transmission of computer program is from an economic (and at the same time from a technological) perspective functionally the same as selling a data carrier in a tangible format, we shall clearly agree with the outcome of the said decisions of the U.S. and German courts. Both sound recordings and audio books have multiple ways of exploitation, including the distribution of copies on tangible data carriers, making available to the public or selling a digital copy via the internet, communication to the public by wire or wireless means, public performance/display etc. We might paraphrase the CJEU’s logic in the following way: “from an economic point of view, the sale of a sound recording/audio-book on a physical data carrier and the sale of the said content by downloading from the internet are not similar. The on-line transmission method is not the functional equivalent of the supply of a material medium.” The outcome is absolutely the same from the technological point of view: unlike computer programs, sound recordings/audio books do not need to be permanently copied (installed) for the purpose of enjoyment. Commentators noted that “[t]he tangible medium on which software exists has a different function from a book: to effect the reproduction of the copyrighted work. In other words, with current software technology, one does not use the software through the medium on which it is initially fixed. Instead, the user is required to copy the software onto another location, like a hard drive.”³⁴⁹

146 A notable decision of the Supreme Court of Canada from 2012 views it differently. The majority of the court noted in the *ESA v. SOCAN* case that “[i]n our

view, there is no practical difference between buying a durable copy of the work in a store, receiving a copy in the mail, or downloading an identical copy using the Internet. The Internet is simply a technological taxi that delivers a durable copy of the same work to the end user.”³⁵⁰ The Supreme Court of Canada based its majority ruling on the policy claims of balance of interests of right holders and users,³⁵¹ further on the requirement of technological neutrality. The panel stressed that “[t]he principle of technological neutrality requires that, absent evidence of Parliamentary intent to the contrary, we interpret the Copyright Act in a way that avoids imposing an additional layer of protections and fees based solely on the method of delivery of the work to the end user. To do otherwise would effectively impose a gratuitous cost for the use of more efficient, Internet-based technologies.”³⁵²

147 To sum up: *under the existing international copyright law it is not the subject matter that decides the application of the doctrine of exhaustion, but the medium in which it was put into circulation for the first time.* It is therefore irrelevant, if the resale affects computer programs, literary works or sound recordings. The question is, whether the original or the copy of the work was distributed in a tangible or an intangible format. Consequently *this is the point, where the CJEU clearly went beyond the boundaries set by international norms.*³⁵³

148 A further perspective was totally neglected by the CJEU in the *UsedSoft* ruling that might be summarized as follows: what if a computer program incorporates other protected subject matter as well? The present article is covering two related issues below: First, the inclusion of sound recordings, audiovisual contents or photographs/graphic works into the computer program, and Second the question of graphic user interfaces.

149 Irrespectively of the facts of the *UsedSoft* case several types of computer programs, especially computer games, include further works, for example sound recordings, audiovisual contents and photographs/graphic works. These pieces of the whole work are similarly protected by copyright law, as long as they are identifiable and surpass the threshold of originality requirement.³⁵⁴ As the CJEU stressed it in its *PC Box* ruling: „videogames (...) constitute complex matter comprising not only a computer program but also graphic and sound elements, which, although encrypted in computer language, have a unique creative value which cannot be reduced to that encryption. In so far as the parts of a videogame, in this case, the graphic and sound elements, are part of its originality, they are protected, together with the entire work, by copyright in the context of the system established by Directive 2001/29.”³⁵⁵

150 The latter statement, however, leads us to the need of the cautious consideration of two distinct

arguments. Let’s suppose that CJEU’s argument in the *UsedSoft* case was ultimately correct. In this situation intangible computer programs would be subject to the principle of exhaustion under the *lex specialis* provisions of the Software Directive. On the other hand, the resale of any other subject matter in intangible form would be treated under the *lex generalis* provisions of the InfoSoc Directive (and the WCT Agreed Statement), and they are ultimately excluded from the scope of exhaustion. In the case of video games, however, these two statements are irreconcilable. It would mean that the program might be resold, except the sound recordings, audiovisual contents and photographs. This solution is clearly absurd. Naturally, all these uncertainties disappear, if we follow the logic expressed above and accept that the ruling of the CJEU in the *UsedSoft* case regarding the applicability of the exhaustion principle to intangibles is erroneous.

151 Graphic user interfaces are almost uniformly excluded from the scope of computer program protection both under the law of the European Union and the United States of America, especially under the idea/expression dichotomy. This is clearly evidenced by the wording of the Software Directive that stresses in its Article 1(2) that “protection in accordance with this Directive shall apply to the expression in any form of a computer program. Ideas and principles which underlie any element of a computer program, including those which underlie its interfaces, are not protected by copyright under this Directive”.³⁵⁶ The general exclusion of ideas from the scope of copyright protection under *USCA* §102(b)³⁵⁷ leads to the same conclusion in the United States.³⁵⁸

152 The case law of the CJEU affirmed the above policy. The Grand Chamber highlighted it in its *BSA v. Ministerstvo kultury* ruling that “the graphic user interface is an interaction interface which enables communication between the computer program and the user. In those circumstances, the graphic user interface does not enable the reproduction of that computer program, but merely constitutes one element of that program by means of which users make use of the features of that program. It follows that that interface does not constitute a form of expression of a computer program within the meaning of Article 1(2) of Directive 91/250 and that, consequently, it cannot be protected specifically by copyright in computer programs by virtue of that directive”.³⁵⁹ Decisions with the similar conclusion were published in the UK³⁶⁰ and Hungary.³⁶¹ Such a conclusion has been applauded by academia as well.³⁶²

153 Similarly, U.S. judges reached the same conclusions in multiple cases.³⁶³ In one of the leading precedents the Second Circuit noted that “functional elements and elements taken from the public domain do not

qualify for copyright protection. With respect to the few remaining parameter lists and macros, the district court could reasonably conclude that they did not warrant a finding of infringement given their relative contribution to the overall program. (...) This aspect of the program's structure [that is, the list of services required for both ADAPTER and OSCAR 3.5] was dictated by the nature of other programs with which it was designed to interact and, thus, is not protected by copyright. Finally, in his infringement analysis, Judge Pratt accorded no weight to the similarities between the two programs' organizational charts, 'because [the charts were] so simple and obvious to anyone exposed to the operation of the program[s].' CA argues that the district court's action in this regard 'is not consistent with copyright law' – that 'obvious' expression is protected, and that the district court erroneously failed to realize this. However, to say that elements of a work are 'obvious,' in the manner in which the district court used the word, is to say that they 'follow naturally from the work's theme rather than from the author's creativity.' This is but one formulation of the *scenes a faire* doctrine, which we have already endorsed as a means of weeding out unprotectable expression".³⁶⁴ Further, in the *Apple v. Microsoft* case the Ninth Circuit stressed that "Apple cannot get patent-like protection for the idea of a graphical user interface, or the idea of a desktop metaphor [under copyright law] which concededly came from Xerox. It can, and did, put those ideas together creatively with animation, overlapping windows, and well-designed icons; but it licensed the visual displays which resulted".³⁶⁵ Similarly, the Hungarian Council of Copyright Experts noted in one of its expert opinions that "the graphic user interfaces conform to the functions to be executed and the data to be managed; and therefore they do not possess such individuality and originality that would be necessary to earn copyright protection as graphic works".³⁶⁶

154 Notwithstanding the above, graphic user interfaces might deserve copyright protection as graphic works, if they meet the requirements of originality. Under EU law only the Software Directive in respect of computer programs,³⁶⁷ the Database Directive in respect of databases,³⁶⁸ and the Copyright Term Directive in respect of photographs³⁶⁹ refer explicitly to originality as a prerequisite of protection. Nonetheless, the CJEU indirectly expanded the scope of the concept of originality to other protectable subject matters in its *Infopaq* ruling as well. There, the Fourth Chamber concluded that "copyright within the meaning of Article 2(a) of Directive 2001/29 is liable to apply only in relation to a subject-matter which is original in the sense that it is its author's own intellectual creation."³⁷⁰ The question whether such a constructive interpretation of *lex specialis* provisions of the three distinct directives listed above shall be treated as erroneous certainly

overstrains the scope of the present paper. In any case the broad concept of originality expressed by the CJEU in the *Infopaq* case generally complies with the domestic treatment of the concept of originality. Indeed, it was followed by the CJEU in its *BSA v. Ministerstvo kultury* ruling as well: „the graphic user interface can, as a work, be protected by copyright if it is its author's own intellectual creation. It is for the national court to ascertain whether that is the case in the dispute before it."³⁷¹

155 With this respect the *Navitaire* decision deserves attention yet. There the High Court stressed that "the [Software] Directive is concerned only with the protection of computer programs as literary works, and I do not read it as having any impact on relevant artistic copyrights. It is certainly possible to view the GUI screens as tables, because they are 'drawn' by selecting from a palette of available objects things such as command buttons, toggle buttons, checkboxes, scrolling lists and so forth and moving them around on a form until a satisfactory layout is concerned. The 'interface builder' program provides 'stubs' for the routines that will be executed when the user selects or clicks on one of these objects, and it is the task of the programmer to provide the necessary code to ensure that the right thing happens when the user presses (for example) the OK button. Although composed of elements made available by the manufacturer of the interface builder program, I can see that the screen resulting from such an operation might properly be considered to be an artistic work. What the programmer ultimately produces is code that depends upon a large number of complex graphic routines that draw the background, the boxes and the shading in the places selected, and act appropriately when the mouse moves over them or they are selected. Programmers do not write this code: it is the scaffolding for their own window design. In my judgment, the better view is that the GUI screens are artistic works. They are recorded as such only in the complex code that displays them, but I think that this is strictly analogous to more simple digital representations of graphic works. The code constructs the screen from basic elements, and is so arranged to give a consistent appearance to the individual elements. I think, nonetheless, that to arrange a screen certainly affords the opportunity for the exercise of sufficient skill and labour for the result to amount to an artistic work. I consider that the GUI screens satisfy this requirement. There is force in the suggestion that they present a uniform appearance in layout of the elements, and so contribute to a uniformity of interface. On the whole this is sufficient skill and labour to entitle the screens sued on to artistic copyright".³⁷²

156 The U.S. Court of Appeals for the Federal Circuit overruled the previously introduced *Atari* precedent in the *Oracle v. Google* case. The panel concluded that "a set of commands to instruct a computer to carry

out desired operations may contain expression that is eligible for copyright protection. (...) We agree with Oracle that, under Ninth Circuit law, an original work – even one that serves a function – is entitled to copyright protection as long as the author had multiple ways to express the underlying idea.”³⁷³ The Federal Circuit’s decision was immediately appealed by Google, and a very convincing *amicus curiae* was submitted by a group of U.S. copyright professors to the Supreme Court.

157 The professors supported the reversal of the decision on three main grounds. First, they claimed that the copyright protection does not extend to procedures, processes, systems, methods of operation, and other useful arts embodied in computer programs under USCA §102(b). The professors opined that APIs clearly fit into this provision.³⁷⁴ Second, the judicially developed doctrine on structure, sequence and organization (SSO) of computer programs – that has been otherwise discredited by multiple circuit decisions – should not be invoked in a way that negates Congress’s intent in USCA §102(b).³⁷⁵ Finally, the *amicus curiae* opined that when APIs constrain the design choices of subsequent programmers, the merger doctrine precludes copyright protection for the interface design. Under this doctrine, external factors like compatibility requirements limit the scope of copyright protection of programs, where these factors restrict the freedom of programmers in selecting the features of APIs. Contrary the Federal Circuit’s opinion quoted above, the *amicus curiae* noted that “courts often recognize that when there is only one or a small number of ways to express an idea, idea and expression will be considered to have merged, and no copyright protection is available to the merged elements”.³⁷⁶ The professors concluded that “the Federal Circuit has incorrectly applied binding Ninth Circuit precedents and issued an opinion that splits from rulings by the First, Second, Sixth, ninth, Tenth and Eleventh Circuit Courts of Appeals”.³⁷⁷

158 Since the CJEU’s *UsedSoft* ruling is silent in this respect, this problem requires careful review by national judges. Until that point the stalemate mentioned above in respect of sound recordings, audiovisual contents and photographs/graphic works incorporated into the computer program equally applies to graphic user interfaces.

E. A need for a digital exhaustion doctrine

159 The present paper argued above that the *UsedSoft* decision shall be ultimately treated as a *contra legem* ruling, although it included several notable and acceptable statements (especially those related to the online distribution of computer programs).

The article similarly noted that the *ReDigi* decision included a false ruling on the service provider’s liability, which deserves correction on the circuit level. The German audio book cases represent a correct evaluation of the *status quo* of the principle of exhaustion under the framework of international and European copyright law; however, their outcome might be treated as conservative by those who are interested in practical, workable solutions for the resale of protected subject matter in the digital age.

160 The present (final) chapter raises a hypothetical question: is the upholding of the *status quo* really the proper answer to the challenges of digital resales? Is it really a diabolic thought to introduce a digital first sale doctrine? Is it correct to say that “even in Community law, the literal wording of the provision is only one, though not unimportant, means of interpretation”?³⁷⁸ The paper will collect the main pro and contra arguments with respect to this question, and will ultimately take the position that under specific conditions the digital exhaustion principle does not represent such a danger as it might be described by the copyright industry, and therefore *it recommends the review of the current conservative positivist approach in respect of the scope of the doctrine of exhaustion*.

I. Isn’t it only a hype?

161 The first question that needs to be discussed here is whether the idea of digital exhaustion is relevant at all in the digital environment or just a fancy hype that supports the interests of several corporations and not the whole society. Indeed, this notion might be deemed as hype only as long as its meaning and relevance in the digital age is settled and undisputed on the one hand, and these doctrinal frames are unreasonably challenged, on the other hand.

162 With regard to the first aspect above, it needs to be stressed again that the first sale doctrine has originally rooted in the protection of personal property and of the owners over the economic interests of copyright holders. Since the emergence of digital technologies the concept of ownership has gone through significant changes, where the proprietary interests over intangible goods has been questioned in several countries. There is one condition that is generally admitted in the legal systems covered above: intangible goods might be *subject to sale*. Consequently, the digital file that contains a protectable subject matter shall be under the control of the lawful purchaser. It seems to be fair to claim broader abilities on the side of the customers (including the ability for further resale of the digital content), even in the lack of proprietary interests.

- 163** Such a claim might be justified from the perspective of general users; however, it might be similarly supported from the perspective of cultural organizations, like public libraries. The general aim of the latter is to distribute knowledge and information amongst members of the society.³⁷⁹ In the lack of a digital first sale doctrine these institutions are deprived of the possibility to participate in the downstream digital commerce.³⁸⁰ They are unable to rely on the benefits of digital society, and they are ultimately forced to spend enormous amounts of money on non-transferable digital copies of cultural goods (especially books).³⁸¹ As a consequence, libraries are going to lose the chance to fulfil the demands of digital natives that could ultimately lead to the questioning of their existence at all.
- 164** Not everyone shows enthusiasm, however, towards the introduction of the doctrine of digital exhaustion, if it is about the possible effects upon public libraries. Necessarily, such a concept would not be the end result, but only the means to fulfil the said cultural aims of these institutions, including lending of digital contents to the patrons. As Chiarizio noted “[w]hile this form of digital lending is technically possible, it raises plenty of administrative problems. For example, patrons will inevitably ‘lose’ the digital copy on loan (through deletion, hardware failure, etc.), and libraries may then be required to buy a replacement copy. Libraries will also have a very difficult time policing patrons to be sure that all patron copies are deleted upon return. Besides administrative quandaries, publishers will notice that lack of wear and tear on digital books is resulting in decreased sales to libraries. Prices of e-books will have to increase in order to compensate for the decrease in replacement purchasing”.³⁸² Indeed, Chiarizio stressed that there is a viable model for e-lending by public libraries in the United States, under which several major book publishers allow for the lending of e-books by the institutions, if they comply with the requirements set by management companies, like OverDrive, 3M or Baker & Taylor.³⁸³
- 165** A further counter-argument might be stressed here, however. Commentators have constantly highlighted that the use of licence contracts is going to eclipse the use of sale contracts. This is especially true in respect of the use of works and other protected subject matters in the online environment.³⁸⁴ Unlike Oracle most of the licensors allow for the temporary use of contents the licensees, which ultimately allows for the ignorance of the *UsedSoft* ruling of the CJEU.
- 166** Such a great example is the subscription model of service providers like Netflix for audiovisual contents, Pandora or Spotify for sound recordings or Amazon’s Kindle Unlimited for e-books. Similarly, the fact that service providers “move to the cloud” might put an end to the ado related to this territory. Since access to contents via the cloud is granted on a temporary basis in exchange of a periodic payment of the licence fee, and users are not provided any permanent copy of the content, this model shall be qualified without any problem as a service.³⁸⁵ Under copyright law the above model is based upon communication to the public of the said contents rather than their distribution. Verbraecken interprets the above shift in the available models as a method of “exhaustion evasion”.³⁸⁶
- 167** The fact that the available options of access to protected subject matter tend towards subscription based models offered via the cloud does not necessarily mean that users lost their – culturally and historically strong – interest in the possession of permanent copies of copyrighted works. Since the subscription based services mentioned above did not generate any profit until the end of 2014,³⁸⁷ it is clearly questionable, whether their systems will survive on a medium or long distance.
- 168** With regard to the second aspect mentioned above it is similarly clear that the concept of exhaustion in the digital age is far from settled or unquestionable. This is best evidenced by two distinct preliminary rulings of the CJEU and an opinion of the Advocate General in a third case.
- 169** First, the judgment of the CJEU in the *Svensson* case – and further its order in the following *BestWater* case³⁸⁸ – practically *created new substantive law in the EU*. The ratio of the two rulings is that the right of making available to the public under Article 3(3) of the InfoSoc Directive is practically exhausted, as long as the source material that is hyperlinked or embedded by a user on its own website has been available online before the use takes place.³⁸⁹ The CJEU expressly noted that “[t]he public targeted by the initial communication consisted of all potential visitors to the site concerned, since, given that access to the works on that site was not subject to any restrictive measures, all Internet users could therefore have free access to them. In those circumstances, it must be held that, *where all the users of another site to whom the works at issue have been communicated by means of a clickable link could access those works directly on the site on which they were initially communicated, without the involvement of the manager of that other site, the users of the site managed by the latter must be deemed to be potential recipients of the initial communication and, therefore, as being part of the public taken into account by the copyright holders when they authorised the initial communication*. Therefore, since there is no new public, the authorisation of the copyright holders is not required for a communication to the public such as that in the main proceedings. Such a finding cannot be called in question were the referring court to find, although this is not clear from the documents before the Court, that when Internet users click on the link at issue, the work appears in such a way as to give the

impression that it is appearing on the site on which that link is found, whereas in fact that work comes from another site. That additional circumstance in no way alters the conclusion that the provision on a site of a clickable link to a protected work published and freely accessible on another site has the effect of making that work available to users of the first site and that it therefore constitutes a communication to the public. However, since there is no new public, the authorisation of the copyright holders is in any event not required for such a communication to the public.”³⁹⁰

170 The above ruling was confirmed by the *BestWater* order in respect of embedding technology, even though the facts of the two cases showed a major difference in one significant aspect. Unlike in the *Svensson* case, where the online newspaper articles were originally posted by the right holders, the source material in the *BestWater* case was uploaded to and made available via YouTube without the prior approval of the right holder. Such a factual difference might be treated as a material one that allows for distinguishing in common law countries. The fact that the CJEU overlooked that aspect of the case³⁹¹ led to a highly questionable practice.

171 The *Art & Allposters* case further mirrors that the application of the doctrine of exhaustion in the 21st century is not without problems. There, the Dutch referring court (Hoge Raad) sought guidance from the CJEU whether the reprints of paintings on canvas run against Dutch and EU law. The facts of the case indicated that defendant Art & Allposters International BV purchased paper posters on the market that were printed and sold with the permission of the right holder. The defendant allowed for its own costumers to order reprints of the paintings on canvas. The plaintiff – the competent Dutch collective rights management association (Stichting Pictoright) – claimed payment for each copy sold on the ground that the original paper version of the painting was adapted to canvas format. The defendant argued that the right of distribution was exhausted when the original paper copies of the paintings were put on the market, and consequently Art & Allposters is allowed to reproduce the work irrespectively of the form of the new copies.³⁹² Advocate General Pedro Cruz Villalón refused both arguments. The reference to the adaptation right is clearly flawless: the reproduction of the painting on canvas does clearly lack the creation of any derivative work.³⁹³ On the other hand, irrespectively of the fact that Art & Allposters purchased lawfully sold hard copies on the market, it did not acquire the rights from the original distributors.³⁹⁴ Consequently, all the reproductions made by the company are out of the scope of the original permission, and these copies cannot be covered by the doctrine of exhaustion either, since these new copies were not put on the market by or under the authorization

of the original right holder.³⁹⁵ The fact that none of the parties viewed the case through these lenses evidence that the doctrinal frames of the principle of exhaustion are far from settled or clear under the European Union law.

172 Taking all the above arguments into account the present article takes the view that *talking about the doctrine of digital exhaustion is clearly not hype*. It reflects socially and economically significant questions. The future of access to protected subject matter under service-like models is not necessarily the only viable option for users to enjoy contents, and the aim to possess copies on a permanent basis, and ultimately the interest in the alienation of them remains a lively issue. Further there is a great chance that the frames of the doctrine of exhaustion might be stretched.

II. Traditional positivism: a dead-end

173 As the paper argued above the ultimate barrier to the acceptance of the notion of digital exhaustion is incorporated into the Agreed Statement of the WCT. One important question was not, however, answered in details by the case law introduced above. The Agreed Statement was implemented by the InfoSoc Directive in a partially different form, where a new doctrinal element was added to the definition of exhaustion. That issue is related to the *services versus goods dichotomy*.

174 Gaubiac noted it in the early 2000’s that „the dematerialization of works now taking place involves only the mode of public communication. But this dematerialization has the effect of transferring a mode of communication by material media to a mode of communication by means of computer storage. This leads to some doubt as to whether such a communication can be properly described as a good or service. The applicable system governing the exhaustion of rights will depend on how the medium of communication of the work is classed. If the dematerialized transmission is classed as reproduction in the various computer memories, the question arises of the survival of exhaustion, whereas if this phenomenon is classed as a communication taking the form of an online service provision, it shall not involve exhaustion in accordance with the generally recognized solutions.”³⁹⁶

175 Several leading international and regional copyright norms evade giving a straight answer to the question raised by Gaubiac. The Agreed Statement attached to Article 6 of the WCT stresses that copies of protected works might only be subject to distribution (and consequently exhaustion) if they are fixed and can be put into circulation as tangible objects. Recitals 28-29 of the InfoSoc Directive equally exclude intangible copies, services (especially on-line services) and

tangible copies produced with the help of services and on-line services from the scope of the doctrine of exhaustion. The model for InfoSoc Directive's wording is to be found in the Database Directive that stressed in its Recital 33 that "the question of exhaustion of the right of distribution does not arise in the case of on-line databases, which come within the field of provision of services; whereas this also applies with regard to a material copy of such a database made by the user of such a service with the consent of the right holder; whereas, 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".³⁹⁷ Similarly, the E-Commerce Directive categorized on-line sale of goods as services.³⁹⁸

176 The EU rules on value-added tax (VAT) similarly support the above treatment. The VAT Directive declares supply of services as "any transaction which does not constitute a supply of goods",³⁹⁹ whereas supply of goods means "the transfer of the right to dispose of tangible property as owner".⁴⁰⁰ Based upon the above terms the CJEU recently concluded that "the supply of electronic books cannot be regarded as a 'supply of goods' within the meaning of that provision, since an electronic book cannot qualify as tangible property".⁴⁰¹ Further, Implementing Regulation No. 282/2011 notes that electronically supplied services "shall include services which are delivered over the Internet or an electronic network and the nature of which renders their supply essentially automated and involving minimal human intervention, and impossible to ensure in the absence of information technology".⁴⁰² The CJEU concluded in the above decision that "the supply of electronic books clearly meets that definition".⁴⁰³

177 Such a separation of tangibles, intangibles and services (on-line services) with regard to the doctrine of exhaustion was treated justifiable by Espantaleon due to the distinct physical attributes and scope (both in terms of space and time) of goods and services, further the diverse language, pricing and technical barriers applied in connection with them.⁴⁰⁴ Others criticized the uncertainty mirrored by the InfoSoc Directive's wording. Advocate General Bot noted in its Opinion to the *UsedSoft* case that "Recital 29 in the preamble to Directive 2001/29 is not without ambiguity either. While it appears to draw a distinction between the sale of goods, to which the exhaustion rule would apply, and the provision of services, to which that rule would be inapplicable, the fact remains that online services, as defined by EU law, include the sale of goods online. Thus, for example, by the standard of the wording of that recital, the exhaustion rule should not apply to an online purchase of a CD-ROM in which the copy of the computer program is incorporated. To my mind,

however, the distinction as to whether the sale takes place remotely or otherwise is irrelevant for the purposes of applying that rule."⁴⁰⁵

178 Wiebe points out that the doctrine of exhaustion and the goods versus services dichotomy have different purposes in law.⁴⁰⁶ He claims that the emphasis in respect of goods and services was misplaced in the EU copyright law. Under the WCT the exclusion of copies sold online from the scope of the doctrine of exhaustion is reasoned by the fact that no physical copy is provided by the seller to the purchaser. The EU legislature unnecessarily complicated the discussion of exhaustion with the introduction of the provisions on goods versus services.⁴⁰⁷ The European Commission stressed it in 1995 that "[w]hether a distribution right is capable of being exhausted by an exploiting act of the right holder, or a third party with the right holder's consent, depends upon the form in which the protected work or related matter is exploited. If it is incorporated in a material form it is subject to the rules on free movement of goods and, in consequence, to the principle of Community exhaustion. (...) On the other hand, if the work or related matter is not incorporated in a material form but is used in the provision of services, the situation is entirely different. (...) In fact, given that the provision of services can in principle be repeated an unlimited number of times, the exhaustion rule cannot apply." Wiebe argued, however, that "the assumption that online transmissions always involve a service is flawed".⁴⁰⁸ Consequently, Wiebe's view is that it is not the goods versus service dichotomy that leads to the exclusion of the doctrine of exhaustion in cases of online delivery of goods, where the purchasers are granted a permanent control over the copy of a work in digital format, but rather the fact that *the seller is not obtaining control over a physical/tangible copy of the said work*.⁴⁰⁹

179 The final conclusion mirrored by Wiebe's paper – that is ultimately in accordance with the literal reading of the WCT – has been criticized by other commentators. Spedicato noted that "the dichotomy that we should match to the one between goods and services in applying the principle of exhaustion is not that between tangible and intangible objects, as Recital 29 of the InfoSoc Directive would suggest, but rather that between selling a work and making it available (through an act other than a sale) or, on a more general level, that between forms of exploitation that entail a transfer of ownership of a copy of the work and forms that do not".⁴¹⁰ Spedicato argues that the *UsedSoft* ruling on the doctrine of sale shall be applicable to other subject matter than software as well, and consequently the sale of protected subject matter via the Internet shall not be *per se* excluded from the scope of the doctrine of exhaustion.⁴¹¹

180 Tai noted that two U.S. reports from 2001 commissioned by the U.S. Department of Commerce, National Telecommunications and Information Administration⁴¹² and the U.S. Copyright Office⁴¹³ both accepted a “limited digital first sale doctrine” and treated this concept as fully in accordance with the WCT’s Agreed Statement cited above. According to the NTIA Report “both the proponents and the copyright community seem to agree that if the files are downloaded with the consent of the copyright owner, a ‘lawfully made copy or phonorecord’ will have been created on the PC hard drive or tangible portable medium (such as a writeable CD). Thus, Section 109 would apply to the owner of that new digital copy or phonorecord. With respect to other applications of Section 109 to digitally downloaded files, however, there was considerable divergence between the stakeholders with respect to whether a copyright owner’s interest could be adequately protected. There was significant information in the record to suggest, however, that DRM systems and other like developments hold some promise of offering a technological solution.”⁴¹⁴

181 The problematic of goods versus services viewed from the perspective of the doctrine of exhaustion seems to be a stalemate. Dreier correctly pointed out that “in times of offering copyrighted works in digital form, it is of secondary importance whether the offering is conducted offline or online. Hence, the distinction between ‘goods’ on the one hand and ‘services’ on the other loses much if not all of its meaning. At best it is no longer technology-neutral. Moreover, due to increasing bandwidth, in the future most copyrighted works will be transmitted online anyway. If this is the case, then either all offerings of copyrighted material online will have to be considered as services. Or, if the distinction between freedom of movement or goods and services is to be maintained, the criteria for distinguishing between the two – and with it between ‘goods’ and ‘services’ – are to be found elsewhere. However, in this respect, the decisions handed down by the CJEU so far have not yet provided much guidance. What is needed is an appropriate definition of these meta-criteria, i.e. a coherent theory of when to treat online offerings of copyrighted works as ‘services’ and when to still treat them as ‘goods’, in spite of their intangible and immaterial nature.”⁴¹⁵

182 The present paper takes the view that *the status quo related to the doctrine of exhaustion* – especially in accordance with the Agreed statement of the WCT and Recitals 28-29 of the InfoSoc Directive – *is outdated and do not properly reflect the economic, social and technological realities of our age*. Therefore, in answering the question whether there is any need to reconsider the scope of the doctrine of exhaustion in order to cover digital transactions as well, economic, social and technological realities deserve priority.

III. Constructive realism: economic, social and technological effects of a digital exhaustion doctrine

183 Some commentators opined that the negative economic effects of digital exhaustion are tremendous. The most general claim – that might vary in form, but remains the same in its content – is that any market for digital resales necessarily decreases the need for “originals”, and consequently harms the interests of the right holders and the traditional intermediaries.⁴¹⁶ A traditional counterargument is based on the vital premise of the doctrine of exhaustion that allows right holders to be remunerated once after the first sale of their creations. It has been stressed by the proponents of the German “*Belohnungstheorie*” as well. To put it differently: right holders are not allowed to control the future sales of their contents, if she asked for a fair price at the time of the first sale.⁴¹⁷ WCT similarly makes it clear that the three-step test – especially the prong that relates to the economic effects of any limitation upon the economic rights – shall not cover resales covered by the doctrine of exhaustion. As such the form of the sale (digital or analogue) is not decisive; indeed, should the form be decisive, the right holders would be able to exclude others from the downstream market, and would receive an unfair advantage in this sphere.⁴¹⁸ Other commentators further argued that the resale of a digital good is generally useful for the whole economy, since it leads to reinvestment into the system.⁴¹⁹

184 The other clear danger of the introduction of digital exhaustion is related to the rise of the prices of original copies. It is naturally unclear what “fair price” is going to mean so long as there is no second hand market in respect of any specific protected subject matter. The downstream commerce has to be, however, always “cheaper” than the original market. This can be extremely useful for the purchasers. Spedicato correctly noted that “the secondary markets will generally make lower prices available, thus making the work accessible to consumers with less purchasing power”.⁴²⁰ On the contrary, the emergence of second hand markets might require the increase of the prices of the original copies due to the loss of sales by the right holders.⁴²¹ The amount of such increase might be marginal, where the number of items sold is extremely high. This shall be especially true for the music industry, and might be relevant for the audiovisual sector and e-book industry as well. For computer programs, databases and other subject matters (like photographs) there might be a clear danger that the increase of prices will be substantive that can have chilling effects upon the business of right holders.

185 The negative effects of the downstream commerce might be eased by the model that ReDigi or Tom

Kabinet offered (and those models that Apple and Amazon patented, but did not launch yet⁴²²), where right holders are remunerated for each and every digital item sold by the clients of the service.⁴²³ Such a model might look, however, paradoxical. If we accept the view that exhaustion applies for the resale of digital goods as well, than any payment to the right holder is *per se* unnecessary. If, on the contrary, the service provider obliges itself to pay remuneration to the right holders it practically confirms the valid claims of the other party to the said money.

186 Thirdly, the fact that the downstream commerce is offered by new service providers (ReDigi, Tom Kabinet, UsedSoft and others) can clearly lead to the rearrangement of powers of the market. It is not surprising that world-wide leading corporation like Amazon and Apple replied to the new challenge. (They most probably wait for the final outcome of the ReDigi and Tom Kabinet cases, before entering the digital resales market with their systems.) A similar reaction might be mirrored by the introduction of Kindle Unlimited by Amazon.⁴²⁴ On the one hand, it is offered as a service, and therefore the first sale doctrine does not apply to the copies obtained (licensed) by the users. On the other hand, the pricing of the model is so low that it practically kills the second hand market for “used” e-books.⁴²⁵

187 Does history repeat itself? It might be worth to recall what George Orwell envisioned in respect of the introduction of the “cheap” Penguin books in the first half the 20th century. He opined that “it is, of course, a great mistake to imagine that cheap books are good for the book trade. Actually it is just the other way about. (...) Hence the cheaper books become, the less money is spent on books. This is an advantage from the reader’s point of view and doesn’t hurt trade as a whole, but for the publisher, the compositor, the author, and the bookseller it is a disaster.”⁴²⁶ Orwell’s vision might be theoretically correct, however, the history of the book industry has evidenced that publishers, editors, authors and bookseller (intermediaries) can and do survive, even if the price of items partially decreased. It seems to be more – rather than less – probable that the introduction of any digital exhaustion doctrine will not kill the traditional forms of copyright industry. Rather businesses will respond to it with new business models. All in all, such an outcome will be beneficial for members of the society. Indeed, access to culture is also vital for institutions, such as universities, libraries, archives or museums, but for individuals as well.⁴²⁷

188 A classic argument against the introduction of any flexible limitation or exception in favour of the users regarding the use of digital copies of protected subject matter roots in the zero cost of reproduction of these contents.⁴²⁸ Any such claim is implicitly

based on the assumption that members of the society are willing to copy protected contents for free. This opinion is correct on the one hand; and flawed on the other hand. Practically, copying a digital content takes extremely short time, marginal human and mechanic power is required, and costs virtually nothing. Indeed, humans have a deep-rooted willingness to possess as much as possible. To put it differently, there is nothing surprising, if users save the works onto their computers, if they can. Such a desire is present irrespectively of the form of the protected content. If the source material is analogue (like a paper book) or is bounded to any physical data carrier (like a sound recording on a CD), users are eager to transform (rip) the content into a digital file, if they cannot directly locate it over the internet. Dutch researchers stressed that “skilful consumers mastering information and communication technology have combined with the development of network capacity to increasingly squeeze the entertainment industry’s traditional business model. Digital consumers, wise to technological possibilities and new applications in the digital arena, are now making demands of products and services – demands that the entertainment industry, stuck in its traditional practices, has failed to meet sufficiently over the past few years.”⁴²⁹ As a consequence, the difference between the reproduction of an analogue and a digital content is clearly vanished with the help of digitization technologies (that has equally marginal costs, however, might last for a couple of minutes). Ultimately, there is no greater danger with respect to the reproduction of digital goods than the analogue ones.⁴³⁰

189 It is reasonable to support the development of “copyright literacy” through the acceptance of digital exhaustion. In the latter case users would not simply sell their unused digital items (some might argue: their property), but would contribute to the development of a secondary market and reinvest in culture at the same time. Copyright law would be treated as a useful tool to support this system, rather than an obstacle that hinders downstream commerce, culture and personal property. The lack of workable alternative solutions to consume protected contents via the internet has already led to a tremendous gap between society and right holders. Peer-to-peer (P2P) file-sharing has appeared in 1999 partially due to the lack of lawful alternatives to consume digital goods online.⁴³¹ The introduction of the doctrine of digital exhaustion might direct users’ attention to lawful digital retail stores.⁴³²

190 A further argument might run against the doctrine of digital exhaustion. Although this paper claimed that the dangers of unauthorized reproduction is practically equal with respect to analogue and digital goods, it still accepts the fact that copies connected to a physical data carrier are subject to significantly faster deterioration than those that are saved on a

hard drive or nowadays more often in the cloud. The indestructible nature of digital versions allow for an unlimited resale of the said copy. (For the sake of clarity, the paper focuses at this point on the sale of the copy in a single chain by multiple successive purchasers, rather than the clearly illegal method of multiple resales by one single user to more purchasers.) This shall not be, however, treated as an obstacle to the application of a concept of digital exhaustion. As highlighted several times above, the first sale doctrine controls *each and every* future transfers of a given content after the first lawful sale. No limitation on the number of these transactions is built into the doctrine. If right holders fear of unlimited future disposals of the given copy, they shall adopt proper pricing for the sale of their contents that meets the realities. If this opinion is correct, no such technological solutions are needed to control the “automatic aging” of digital files.⁴³³

191 The present paper takes the view that the effective functioning of a digital first sale doctrine might be guaranteed with the help of two technological solutions. The first shall be the inclusion of effective forward-and-delete software into the model of the digital retail store. The other is the application of unique ID number (watermarking) for each and every contents sold.

192 Under this model users might only resell contents that were lawfully purchased from authorized corporations that apply specific ID-numbers or watermarking for these files.⁴³⁴ First, such a prerequisite excludes the possibility to swamp the system with copies acquired through P2P file-sharing sites (or any other illegal channels) or that were created by the users themselves from CDs or any other data carrier. Second, the ID-number or watermark shall work as rights management information that deserves protection under WCT Article 12. To put it differently, any attempt to erase or modify the ID-number or watermark ultimately leads to a copyright infringement.

193 Should the lawful acquirers sell their copies via the retail store’s system, the latter shall effectively control the removal of the original file from the user’s hard drive. If the user previously saved a copy of the said content to any portable device, the forward-and-delete software shall detect it at any time when the device is synchronized with the computer, and shall oblige the user to remove the said content from the device. All of these guarantee that there may always be only one copy of a lawfully purchased content having a unique ID-number or watermark.⁴³⁵ Berger stressed, and the present paper agrees with him, that a possible statutory description of the digital exhaustion doctrine shall explicitly refer to the obligation to erase the sold content from the users’ computer and that the doctrine only protects the lawful acquirers of digital files.⁴³⁶ Ultimately, such

a model does not heavily or unnecessarily intrude into the private lives of the users. The control of the synchronized devices is absolutely reasonable in order to protect the interests of the right holders.

194 Taking all of the economic, social and technological arguments expressed above into account, there might be a valid claim to argue for the introduction of a digital first sale doctrine. Some commentators claim that the Agreed Statement of the WCT is cloudy in this respect. Ruffler stressed that “what [the Agreed Statement] actually says is that the copies can be put into circulation as tangible objects. That is to say that it must be possible to fix them in a tangible medium, and not that they must already be fixed as tangible objects”.⁴³⁷ If Ruffler is correct, it is only InfoSoc Directive Article 4(2) that needs to be clarified to cover the digital domain as well. If we, however, accept the more positivistic point of view, it becomes evident that it is the Agreed Statement that requires amendment first. The present paper votes for this second option.

F. Conclusion

195 The idea of digital first sale doctrine imploded into the mainstream copyright discussion only a few years ago, although it has already been discussed for almost two decades. The problem was reflected by academia, case law and legislature as well. Although notable sources take the view that the concept of digital exhaustion deserves support, the majority of commentators refused to accept this idea. Likewise, legislative proposals that were submitted to the German Bundestag⁴³⁸ and the Congress of the United States⁴³⁹ were ultimately refused by the relevant national parliaments (or were not even discussed by them). Under the traditional, positivist vision of copyright law, any similar ideas are condemned to death at the moment, especially in the light of the WCT Agreed Statement. Similarly, the CJEU’s constructive interpretation of the international and regional copyright norms led to flawed argumentation. As highlighted in Chapter E, however, significant economic, social and technological arguments support the view that it is time to reconsider at international legislative level.

196 Such a notable – but diplomatic – proposal was formulated by Maria A. Pallante, the Register of Copyrights. She stressed that “more than a decade [after the publication of the DMCA Section 104 Report], the doctrine of first sale may be difficult to rationalize in the digital context, but Congress nonetheless could choose to review it, much as it considered the issues of renewal registration and termination in 1976. On the one hand, Congress may believe that in a digital marketplace, the copyright owners should control all copies of their works,

particularly because digital copies are perfect copies (not dog-eared copies of lesser value) or because in online commerce the migration from the sale of copies to the proffering of licenses has negated the issue. On the other hand, Congress may find that the general principle of first sale has ongoing merit in the digital age and can be adequately policed through technology – for example, through measures that would prevent or destroy duplicative copies. Or, more simply, Congress may not want a copyright law where everything is licensed and nothing is owned.”⁴⁴⁰

197 Similarly, an increasing number of enterprises – like UsedSoft, ReDigi, Tom Kabinet and many other companies – offer services that allow for the resale of digital goods. We might therefore say: digital exhaustion is *ante portas*, that is, at the doors. It is quite questionable that “e-exhaustion” is an enemy at all, and whether it will be defeated just like Hannibal, the Carthaginian commander, who reached the gates of Rome more than two thousand years ago.

198 It is extremely interesting to draw a parallel between Hannibal’s war against the Roman Empire and the “war” of the proponents of e-exhaustion against the copyright industry. Hannibal lost his campaign among other reasons due to the lack of satisfactory resources.⁴⁴¹ Similarly, there is a great chance that the whole debate on digital exhaustion will be silenced, if defendants of digital exhaustion cases will run out of the necessary means – with a bad joke: they “exhaust their resources” – to protect their business models.

199 Karjala’s thoughts serve as a great point to finish with. He stressed that “[e]ither we believe in the first-sale doctrine in the digital age or we do not. If we no longer believe in it, we should discard it openly and not through verbal gymnastics interpreting the definition of ‘copy’ for the purposes of the statute’s reproduction right. Nor should our definition of ‘copy’ force systems engineers into unduly intricate or artificial designs simply to protect the right of the owner of a copy of a music file to transfer that file, provided that no copies derived from the transferred file are retained.”⁴⁴²

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Conference in Warsaw (Poland), November 6, 2014; and Discussion on Exhaustion Right after UsedSoft Case, Workshop, Lyon (France), November 20, 2014. The author of the paper wants to express his appreciation to John T. Cross, Dóra Hajdú, Katja Lindroos, Pierre Emmanuel Moyses, Tuomas Mylly, Édouard Treppoz, Peter K. Yu for their valuable comments how to improve the article.

- 1 On the English copyright law see: L. Ray Patterson - Stanley F. Birch - Craig Joyce: A Unified Theory of Copyright - Chapter 2: The Copyright Clause and Copyright History, *Houston Law Review*, 2009: pp. 244 – 256. In respect of the first US copyright statute compare to: Tyler Ochoa: Copyright Duration: Theories and Practice. In: Peter K. Yu (Ed.): *Intellectual Property and Information Wealth: Copyright and related rights*, Greenwood Publishing Group, 2007: pp. 142 – 143. On the acceptance of the first French copyright act see: Anne Latournerie: *Petite histoire des batailles du droit d’auteur*, *Multitudes* n°5, May 2001.
- 2 David Gladwell: *The Exhaustion of Intellectual Property Rights*, *European Intellectual Property Review*, 1986/Issue 12, pp. 366., 369.
- 3 It is often emphasized by the European Commission as well that the territorial protection of copyrights has become an obstacle of the development of services offered via the internet. See for example: *Orientation Debate on Content in the Digital Economy*, SEC(2012) 680, Brussels, 28 November 2012: p. 4.; *European Commission: White Paper - A Copyright Policy for Creativity and Innovation in the European Union*, Brussels, XXX [...]2014 XXX Draft, 2014: pp. 5 – 7.
- 4 Currently, this limitation is weakened by the extension of the term of copyright protection. The European Economic Community has granted a 20 years longer term (“post mortem auctoris” 70 years) than the Berne Union Convention’s minimum requirement [compare to Article 7(1)] when it introduced Directive 93/98/EEC in 1993. The Copyright Term Directive was later codified by Directive 2006/116/EC in 2006, and was recently amended by Directive 2011/77/EU in 2011. The United States of America – following the logic of the EEC/EU and in order to protect its own nationals – amended the US Copyright Act in 1998 to introduce a copyright term of protection that equals with the European standard. See: *Sonny Bono Copyright Term Extension Act*, Pub. L. No. 105-298, 112 Stat. 2827. As Woods stresses countries with the leading copyright industry – especially the EU and the US – are taking steps to strengthen the copyright protection via free trade agreements signed with third countries. As a part of these agreements – the term of copyright protection is traditionally set at a higher level than the Berne Union Convention standard. See: Tanya Woods: *Copyright Enforcement at All Costs? Finding a Place for Balance in the International Enforcement Agenda*, *AIPLA Quarterly Journal*, Summer 2009: p. 362.
- 5 The alienation of economic rights is a special feature of the German *Urheberrecht* and its followers (like Hungary). Definitely, at some specific points the alienation is limited (for example in respect of computer programs, database or works made for hire). The alienation of copyright is not excluded in the French *droit d’auteur* and the Anglo-Saxon copyright models.
- 6 The two most well-known examples are the empty data carrier royalty and the reprography royalty. Both of these were introduced for the first time by Germany. See: Anne Lauber-Rösberg: *Urheberrecht und Privatgebrauch - Eine rechtsvergleichende Untersuchung des deutschen und des*

- britischen Rechts*, Schriften zum geistigen Eigentum und zum Wettbewerbsrecht, Band 44., Nomos, Baden-Baden, 2011: pp. 93 – 98. Later, the European Union offered Member States the freedom to introduce any of these royalties. See: Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, Art. 5 para (2) points a)-b).
- 7 The most typical compulsory licence – usually referred to as “mechanical licence” – is described by Art. 13 of the Berne Union Convention.
 - 8 “Free use” is a traditional European expression to refer to such exceptions of exclusive rights, where no permission is needed from the right holder and no payment is due to use copyrighted work. Such a free use is citation/quotation. It is true, however, that the expression is partially misleading in the light of the wording of classic international copyright law treaties that mention limitations of and exceptions to the exclusive rights. On a concise and recent comparison of the free use exceptions see especially: Reto M. Hilty - Sylvie Nérisson (Eds.): *Balancing Copyright - A Survey of National Approaches*, Max Planck Institute Studies on Intellectual Property and Competition Law, Volume 18, Springer Verlag, München, 2012.
 - 9 United States Copyright Act, 17 U.S.C., §107. (Hereinafter referred to as USCA.) On the theory of fair use see especially: Pierre N. Leval: *Toward a Fair Use Standard*, Harvard Law Review, 1989-1990: pp. 1105 – 1136.; Matthew Sag: *Predicting Fair Use*, Ohio State Law Journal, 2012: pp. 47 – 91.; Melville B. Nimmer - David Nimmer: *Nimmer on Copyright*, Matthew Bender & Company, Inc., 2014, §13.05.
 - 10 On the theory of fair dealing see especially: Jonathan Griffiths: *Preserving Judicial Freedom of Movement - Interpreting Fair Dealing in Copyright Law*, Intellectual Property Quarterly, 2000: pp. 164 – 186.; Tony Ballard: *Fair Use and Fair Dealing*, Entertainment Law Review, 2006: p. 239-242.; Melissa de Zwart: *An Historical Analysis of the Birth of Fair Dealing and Fair Use: Lessons for the Digital Age*, Intellectual Property Quarterly, 2007: pp. 60 – 91.; Alexandra Sims: *Strangling their Creation: The Court’s Treatment of Fair Dealing in Copyright Law since 2011*, Intellectual Property Quarterly, 2010: pp. 192 – 224.; Alexandra Sims: *Appellations of Piracy: Fair Dealing’s Prehistory*, Intellectual Property Quarterly, 2011: pp. 3 – 27.
 - 11 Examples are official texts of statutes, court decision, news of the day, public speeches held on political events or during court proceedings. See: Berne Union Convention, Article 2(4) and (8); Article 2bis(1). Several countries similarly exclude expressions of folklore from copyright subject matter. See for example the Hungarian regulation: Act LXXVI of 1999 on Copyright Law, Article 1(7).
 - 12 Silke von Lewinski: *International Copyright Law and Policy*, Oxford University Press, New York, 2008: p. 451., para. 17.60.
 - 13 The history of the first sale doctrine under US copyright law will be shortly introduced below, see infra Chapter B.III. On the historical development of the doctrine of exhaustion (“Erschöpfungsgrundsatz”) under the German copyright law see Dietrich Reimer: *Der Erschöpfungsgrundsatz im Urheberrecht und gewerblichen Rechtsschutz unter Berücksichtigung der Rechtsprechung des Europäischen Gerichtshofs, Gewerblicher Rechtsschutz und Urheberrecht International*, 1972: pp. 224 – 227.
 - 14 On the problematic of first sale by authorised persons (to put it differently: first sale with the consent of the original right holder) see especially: David T. Keeling: *Intellectual Property Rights in EU Law, Volume I. - Free Movement and Competition Law*, Oxford EC Law Library, Oxford University Press, New York, 2003: pp. 82 – 95.
 - 15 Paul Goldstein - P. Bernt Hugenholtz: *International Copyright - Principles, Law and Practice*, Second Edition, Oxford University Press, Oxford-New York, 2010: p. 305.
 - 16 Keeling, supra note 14, p. 75.
 - 17 This proposition has been widely accepted in the Anglo-Saxon copyright systems. See for example: Paul Edmond Dowling v. United States, 473 U.S. 207 (1985), pp. 216 – 217.; David Fagundes: *Property Rhetoric and the Public Domain*, Minnesota Law Review, 2010: pp. 652 – 705.; Patricia Loughlan: *‘You Wouldn’t Steal a Car’: Intellectual Property and the Language of Theft*, European Intellectual Property Review, 2007: p. 402. A counter argument from the Anglo-Saxon academia is expressed by Adam Mossoff: *Introduction*. In: Adam Mossoff (Ed.): *Intellectual Property and Property Rights*, Edgar Elgar, Cheltenham, 2013: pp. ix – xxii. In respect of the German Urheberrecht system see: Gerhard Schrickler (Ed.): *Urheberrecht - Kommentar*, 3., neubearbeitete Auflage, C. H. Beck’sche Verlagsbuchhandlung, München, 2006: pp. 33 – 43.; Manfred Rehbinder: *Urheberrecht*, 15., neubearbeitete Auflage, Verlag C. H. Beck, München, 2008: p. 2.; Karl Egbert Wenzel - Emanuel H. Burkhardt: *Urheberrecht für die Praxis*, 5., vollständig überarbeitete Auflage, Verlag Dr. Otto Schmidt, Köln, 2009: pp. 22 – 23.
 - 18 The Report of the House of the Representatives on the newly enacted USCA stressed that “the copyright owner’s exclusive right of public distribution would have no effect upon anyone who owns ‘a particular copy or phonorecord lawfully made under this title’ and who wishes to transfer it to someone else or to destroy it”. See: H.R. Rep. No. 94-1476 (1976), p. 79.
 - 19 USCA §202.
 - 20 Richard H. Stern: *Some Reflections on Parallel Importation of Copyrighted Products into the United States and the Relation of the Exhaustion Doctrine to the Doctrine of Implied Licence*, European Intellectual Property Review, 1989: p. 119.
 - 21 Reimer, supra note 13, p. 222. See further Christian Berger: *Urheberrechtliche Erschöpfungslehre und digitale Informationstechnologie, Gewerblicher Rechtsschutz und Urheberrecht*, 2002: p. 199.
 - 22 Compare to Recital 29 of the Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, infra note 95.
 - 23 For further examples see Reimer, supra note 13, p. 221.
 - 24 Péter Mezei: *Digital Technologies - Digital Culture*, *Nordic Journal of Commercial Law*, 2010/Issue 1. (http://www.njcl.utu.fi/1_2010/mezei_peter.pdf).
 - 25 The popularity of movie theaters threatened several authors in the 20th century. As George Orwell explained it in one of his essays on cheap (“sixpence”) Penguin books: “if books are sixpence each you are not going to buy ten of them, because you don’t want as many as ten; your saturation point will have been reached long before that. Probably you will buy three sixpenny books and spend the rest of your five shillings on seats at the ‘movies’”. George Orwell: *Review of Penguin Books*, New English Weekly, 5 March 1936. Quoted by: Milton Friedman: *Price Theory*, Fourth printing, Transaction Publishers, New Brunswick, 2008: p. 349.
 - 26 Scott M. Martin: *The Berne Convention and the U.S. Compulsory License for Jukeboxes: Why the Song Could not Remain the Same*, *Journal of the Copyright Society of the USA*, 1990: p. 264.
 - 27 On the effects of the Walkman machine on music consumption see: David H. Horowitz: *The Record Rental Amendment of 1984: A Case Study in the Effort To Adapt Copyright Law to New Technology*, Columbia-VLA Journal of Law & Arts, 1987: pp. 42 – 43. On the importance of video tape recorders see: *50 Years of the Video Cassette Recorder*, WIPO Magazine, November 2006: pp. 8 – 9.

- 28 The “threat” of video tape recorders to the motion picture industry was best summarized by Jack Valenti – than President of the Motion Picture Association of America – in his statement before the House of Representatives. He claimed that “I say to you that the VCR is to the American film producer and the American public as the Boston strangler is to the woman home alone.” See: Home Recording of Copyrighted Works: Hearings on H.R. 4783, H.R. 4794, H.R. 4808, H.R. 5250, H.R. 5488, and H.R. 5705, before the Subcommittee on Courts, Civil Liberties and the Administration of Justice of the House Committee on the Judiciary, 97th Congress (1982).
- 29 Scott M. Martin: Photocopying and the Doctrine of Fair Use: the Duplication of Error, *Journal of the Copyright Society of the USA*, 1992: pp. 345 – 395.
- 30 Doris Estelle Long: Globalization: A Future Trend or a Satisfying Mirage, *Journal of Copyright Society*, 2001: pp. 313 – 343.
- 31 Peter K. Yu: The Global Intellectual Property Order and its Undetermined Future, *Occasional Papers in Intellectual Property Law*, 2009: pp. 1 – 16.; Doris Estelle Long: Deviant Globalization: The Next Step in the Multilateral Protection of Intellectual Property, in: Katja Weckström (Ed.): *Governing Innovation and Expression: New Regimes, Strategies and Techniques*, Private Law Series A:132, University of Turku Faculty of Law, Turku, 2013: pp. 49 – 84.; Peter K. Yu: The Alphabet Soup of Transborder Intellectual Property Enforcement, in: Katja Weckström (Ed.): *Governing Innovation and Expression: New Regimes, Strategies and Techniques*, Private Law Series A:132, University of Turku Faculty of Law, Turku, 2013: pp. 239 – 257.
- 32 Charles R. McManis: The Proposed Anti-Counterfeiting Trade Agreement (ACTA): Two Tales of a Treaty, *Houston Law Review*, 2009: pp. 1235 – 1256.; *Opinion of European Academics on Anti-Counterfeiting Trade Agreement*, 3 December 2010 (<http://www.statewatch.org/news/2011/jul/acta-academics-opinion.pdf>); Annemarie Bridy: ACTA and the Specter of Graduated Response, *American University International Law Review*, 2011: pp. 558 – 577.; Peter K. Yu: Six Secret (and Now Open) Fears of ACTA, *SMU Law Review*, 2011: pp. 975 – 1094.; Henning Grosse Ruse-Khan: *From TRIPS to ACTA: Towards a New ‘Gold Standard’ in Criminal IP Enforcement?* In: Christophe Geiger (Ed.): *Criminal Enforcement of Intellectual Property - A Handbook of Contemporary Research*, Edgar Elgar, Cheltenham, 2012: pp. 171 – 190.
- 33 Notably, the first ever international treaty that regulated exhaustion was the Treaty on Intellectual Property in Respect of Integrated Circuits of 26 May 1989, Article 6(5).
- 34 Mihály Ficsor: *The Law of Copyright and the Internet, The 1996 WIPO Treaties, their Interpretation and Implementation*, Oxford University Press, New York, 2002: pp. 153 – 154.
- 35 UNCTAD-ICTSD Project on IPRs and Sustainable Development: Resource Book on TRIPS and Development, Cambridge University Press, New York, 2005: pp. 97 – 104.
- 36 TRIPS Agreement, Article 6.
- 37 Howard P. Knopf: Parallel Imports & the Internet: Bits, Borders, Barriers & Exhaustion. In: Hugh C. Hansen: *International Intellectual Property Law & Policy*, Volume 6, Juris Publishing, Huntington, 2001: p. 113-13.; UNCTAD-ICTSD Project, supra note 33, pp. 104 – 108.; Carlos M. Correa: *Trade Related Aspects of Intellectual Property Rights*, Oxford Commentaries on the GATT/WTO Agreements, Oxford University Press, Oxford, 2007: pp. 78 – 79.
- 38 Jörg Reinbothe - Silke von Lewinski: *The WIPO Treaties 1996 - The WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty*, Commentary and Legal Analysis, Butterworths LexisNexis, London, 2002: p. 80. Since Article 9(1) of the TRIPS Agreement transferred Article 1-21 (except for Article 6bis on moral rights) of the Berne Union Convention, the limited aspects of the rights of distribution seemed to be acceptable under the TRIPS Agreement as well. Compare to Ficsor, supra note 34, p. 153.
- 39 Van Oostveen: *Netherlands: copyright*, *European Intellectual Property Review*, 1997: pp. D74 – 75.; Tjerd Overdijk - Polo van der Putt - Eva de Vries - Thomas Schafft: *Exhaustion and Software Resale Rights - A Comparison between the European Exhaustion Doctrine and the U.S. First Sale Doctrine in the Light of Recent Case Law*, *Computer Law Review International*, 2011: pp. 33 – 39.
- 40 Knopf, supra note 37, p. 113-22.
- 41 Louise Longdin: *Making the Most of Article 6: Parallel Importing in Australia and New Zealand*. In: Hansen, supra note 37, pp. 112-4 – 112-9.; Knopf, supra note 37, pp. 113-30 – 113-31.
- 42 „The developing countries, who were quite understandably sceptical about signing on to TRIPS, were certainly not about to be forbidden from allowing for international exhaustion”. See: *ibid.*, p. 113-17.
- 43 Compare to Chapter II.3.
- 44 Dietrich Reimer: *Principle of Exhaustion of Rights*, *NIR - Nordiskt Immateriellt Rättsskydd*, 1982: p. 364.
- 45 Compare to Chapter II.2.
- 46 Referring to the opinion of Mr. Adrian Otten, the then Secretary to the Trade Negotiating Group during the Uruguay Round Frederick Abbott highlighted that “[t]he formula in Article 6, TRIPS Agreement, reflects a compromise between governments favoring an explicit recognition of national discretion in regard to exhaustion practices, including the choice of national or international exhaustion, and governments not wanting to provide such recognition although not seeking to regulate such practices specifically.” See: Frederick M. Abbott: *Second Report (Final) to the Committee on International Trade Law of the International Law Association on the Subject of the Exhaustion of Intellectual Property Rights and Parallel Importation*, FSU College of Law, Public Law Research Paper, 2000 (available via <http://ssrn.com/abstract=1921856>).
- 47 On the fascinating historical background of Article 6 of the WCT and the lengthy debates on exhaustion between developing and most developed nations see: Ficsor, supra note 34, pp. 210 – 211., 213 – 218., 226 – 230., 241 – 242., 245 – 246., 248 – 249.; Reinbothe - von Lewinski, supra note 38, pp. 80 – 84.; von Lewinski, supra note 12, p. 452., para. 17.63.
- 48 Specific aspects of the right of distribution have already been regulated by the Berne Union Convention (compare to Article 14(1), 14ter and 16; see further Article 13(3) on the right to seize phonograms produced under compulsory licence and imported without proper authorization), however none of these granted a general right to authors to control the distribution of their works. Compare to Ficsor, supra note 34, pp. 146 – 151.; Sam Ricketson - Jane C. Ginsburg: *International Copyrights and Neighboring Rights - Berne Convention and Beyond*, Second Edition, Volume I., Oxford University Press, New York, 2006: pp. 660 – 669.
- 49 WPPT, Article 8(2): “Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in paragraph (1) applies after the first sale or other transfer of ownership of the original or a copy of the fixed performance with the authorization of the performer.”
- 50 Reinbothe - von Lewinski, supra note 38, p. 85.
- 51 *Ibid.*, pp. 86 – 87.
- 52 In light of this wording the WIPO Internet Treaties included an advanced regulation compared to the TRIPS Agreement, since the latter offered contracting parties a freedom to regulate exhaustion but only “for the purposes of dispute settlement”. *Ibid.*, p. 87.
- 53 *Ibid.*, p. 87.; von Lewinski, supra note 12, p. 453., para. 17.65.

- 54 “The Contracting Parties, Desiring to develop and maintain the protection of the rights of authors in their literary and artistic works in a manner as effective and uniform as possible, Recognizing the need to introduce new international rules and clarify the interpretation of certain existing rules in order to provide adequate solutions to the questions raised by new economic, social, cultural and technological developments, Recognizing the profound impact of the development and convergence of information and communication technologies on the creation and use of literary and artistic works, Emphasizing the outstanding significance of copyright protection as an incentive for literary and artistic creation, Recognizing the need to maintain a balance between the rights of authors and the larger public interest, particularly education, research and access to information, as reflected in the Berne Convention, Have agreed as follows (...)”.
- 55 “*The Contracting Parties, Desiring to develop and maintain the protection of the rights of performers and producers of phonograms in a manner as effective and uniform as possible, Recognizing the need to introduce new international rules in order to provide adequate solutions to the questions raised by economic, social, cultural and technological developments, Recognizing the profound impact of the development and convergence of information and communication technologies on the production and use of performances and phonograms, Recognizing the need to maintain a balance between the rights of performers and producers of phonograms and the larger public interest, particularly education, research and access to information, Have agreed as follows (...)*”.
- 56 J. A. L. Sterling: *World Copyright Law*, Sweet and Maxwell, London, 1998: p. 566.
- 57 Friedrich Ruffler: *Is Trading in Used Software an Infringement of Copyright? The Perspective of European Law*, *European Intellectual Property Review*, 2011/6: pp. 380 – 381.
- 58 Cited by Ficsor, supra note 34, pp. 205 – 206. On the long and winding road of the idea of the umbrella solution see: *Ibid*, pp. 145 – 254.
- 59 WCT Article 8; WPPT Article 10 and 14. Compare to Ficsor, supra note 34, pp. 249 – 250.
- 60 von Lewinski, supra note 12, p. 457., para. 17.76.
- 61 ECJ introduced the doctrine of exhaustion for trademark law even earlier. The leading historical example for the trademark law exhaustion is the *Joined Cases 56 & 58/64 - Établissements Consten S.à.R.L. and Grundig-Verkaufs-GmbH v Commission of the European Economic Community*, *European Court Reports*, 1966: pp. 299 – 351.
- 62 Jens Schovsbo: *The Exhaustion of Rights and Common Principles of European Intellectual Property Law*. In: Ansgar Ohly: *Common Principles of European Intellectual Property Law*, Mohr Siebeck, Tübingen, 2010: p. 170.
- 63 Compare to Article 3(G), 5, 30, 36, 85(1) and 86 of the EEC Treaty.
- 64 *Case 78/70 - Deutsche Grammophon Gesellschaft mbH v Metro-SB-Großmärkte GmbH & Co. KG.*, 8 June 1971, *European Court Reports*, 1971: pp. 499 – 500., para. 5-11. Compare to Article 36 of the EEC Treaty. On the application of Article 36 of the EEC Treaty 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*, Volume 5, Juris Publishing, Huntington, 2003: pp. 33-4 – 33-11.
- 65 *Case 78/70*, supra note 64, p. 500., para. 12-13.
- 66 *Joined cases 55 and 57/80 - Musik-Vertrieb Membran GmbH and K-tel International v GEMA - Gesellschaft für musikalische Aufführungs- und mechanische Vervielfältigungsrechte*, 20 January 1981, *European Court Reports*, 1981: pp. 163 – 164., para. 15., 18.
- 67 *Case 62/79 - SA Compagnie générale pour la diffusion de la télévision, Coditel, and others v Ciné Vog Films and others*, 18 March 1980, *European Court Reports*, 1980: p. 903 – 904., para. 15-17.
- 68 *Ibid.*, p. 903., para. 14.
- 69 Later the *Coditel I* decision was reaffirmed by the preliminary ruling in the *Coditel II* case. See: *Case 262/81 - Coditel SA, Compagnie générale pour la diffusion de la télévision, and others v Ciné-Vog Films SA and others*, 6 October 1982, *European Court Reports*, 1982: pp. 3381 – 3403.
- 70 *Case 158/86 - Warner Brothers Inc. and Metronome Video ApS v. Erik Viuff Christiansen*, 17 May 1988, *European Court Reports*, 1988: p. 2629., para. 14-15.
- 71 On the analysis of the above ECJ decisions see: Reimer, supra note 13, pp. 232 – 233.; Gladwell, supra note 2, pp. 369 – 370.; Frank Gotzen: *Distribution and exhaustion in the EC*, *European Intellectual Property Review*, 1990: pp. 301 – 302.; Yves Goubiac: *The exhaustion of rights in the analogue and digital environment*, *Copyright Bulletin*, 2002/No4: pp. 3 – 6.; Fennelly, supra note 64, pp. 33-11 – 33-17.; Keeling, supra note 14, pp. 81 – 82., 99 – 102.; Jaime Espantaleon: *Exhaustion light in European television*, *European Intellectual Property Review*, 2010: pp. 32 – 33.
- 72 *Commission of the European Communities: Green Paper on Copyright and the Challenge of Technology - Copyright Issues Requiring Immediate Action*, COM (88) 172 final, Brussels, 7 June 1988, p. 148., point 4.3.1. (Hereinafter referred to as EU Green Paper.)
- 73 *Ibid*, p. 152., point 4.4.1.
- 74 *Ibid*, p. 153., point 4.4.4.
- 75 *Ibid*, p. 165., point 4.10.9. It will be highlighted below that this opinion of the Commission was finally overwritten by the Council that regulated for the public lending right as well.
- 76 *Ibid*, p. 155., point 4.5.2.
- 77 *Ibid*, p. 156., point 4.5.3.
- 78 *Ibid*, p. 157., point 4.5.5. As the EU Green Paper noted it elsewhere, the prices of the pre-recorded video tapes and the cost of rental show much smaller difference than in the United States, and therefore “the profit margin for video pirates has been dramatically reduced in the last few years, taking away a major incentive to engage in the activity”. See: *Ibid*, p. 37., point 2.3.4. See further: Reimer, supra note 44, p. 364.
- 79 EU Green Paper, supra note 67, p. 191., 200, points 5.6.14. and 5.8.2.d) respectively.
- 80 *Ibid*, p. 161., point 4.10.1.
- 81 *Ibid*, p. 163., point 4.10.5.
- 82 *Council Directive of 14 May 1991 on the legal protection of computer programs (91/250/EEC)*. The directive was later amended by *Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs (codified version)*.
- 83 *Directive 91/250/EEC, Article 4(c)*. The principle of exhaustion in respect of computer programs is currently included in *Article 4(2) of Directive 2009/24/EC*.
- 84 Interestingly the Commission report on the implementation of the *Software Directive* stressed the opposite: “As to the exhaustion of copyright it must be borne in mind that under the *Directive* Community exhaustion only applies to the sale of copies i.e. goods, whereas supply through on-line services does not entail exhaustion.” See: *Report from the Commission to the Council, the European Parliament and the Economic and Social Committee on the implementation and effects of Directive 91/250/EEC on the legal protection of computer programs*, COM(2000) 199 final, Brussels, 10.04.2000, p. 17. It might be noted, however, that the above statement was given

- by Commissioner for Competition Mario Monti as an answer to a question raised by a member of the European Parliament.
- 85 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. Later the directive was codified by the 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 (codified version).
- 86 “The distribution right shall not be exhausted within the Community in respect of an object as referred to in paragraph 1, except where the first sale in the Community of that object is made by the right holder or with his consent.” Directive 2006/116/EC similarly includes the above provision in Article 9(2).
- 87 Directive 92/100/EEC, Article 1(4); see further: Directive 2006/115/EC, Article 1(2).
- 88 Case C-200/96 – *Metronome Musik GmbH v. Music Point Hokamp GmbH*, 28 April 1998, I-ECR, 1998: p. 1978., para. 18-20.
- 89 *Ibid.*, p. 1980., para. 24.
- 90 Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases, Article 5(c). Compare to Article 7(2)(b) as well: “‘re-utilization’ shall mean any form of making available to the public all or a substantial part of the contents of a database by the distribution of copies, by renting, by on-line or other forms of transmission. The first sale of a copy of a database within the Community by the right holder or with his consent shall exhaust the right to control resale of that copy within the Community”.
- 91 *Ibid.*, Recital 24.
- 92 “Copyright protection under this Directive includes the exclusive right to control distribution of the work incorporated in a tangible article. The first sale in the Community of the original of a work or copies thereof by the right holder or with his consent exhausts the right to control resale of that object in the Community. This right should not be exhausted in respect of the original or of copies thereof sold by the right holder or with his consent outside the Community. Rental and lending rights for authors have been established in Directive 92/100/EEC. The distribution right provided for in this Directive is without prejudice to the provisions relating to the rental and lending rights contained in Chapter I of that Directive.”
- 93 “The question of exhaustion does not arise in the case of services and on-line services in particular. This also applies with regard to a material copy of a work or other subject-matter made by a user of such a service with the consent of the right holder. Therefore, the same applies to rental and lending of the original and copies of works or other subject-matter which are services by nature. 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 should be subject to authorisation where the copyright or related right so provides.”
- 94 “The rights referred to in paragraphs 1 and 2 [right of communication to the public and making available to the public] shall not be exhausted by any act of communication to the public or making available to the public as set out in this Article.”
- 95 Case C-1/96 – *The Queen v Minister of Agriculture, Fisheries and Food, ex parte Compassion in World Farming Ltd.*, 19 March 1998, European Court Reports, 1998: pp. 1296 – 1297., para. 47.
- 96 Compare to Case 158/86, supra note 70, pp. 2625 – 2631. See further: *Report from the Commission to the Council, the European Parliament and the Economic and Social Committee on the Implementation and Effects of Directive 91/250/EEC on the Legal Protection of Computer Programs*, COM/2000/0199, p. 17. (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52000DC0199:EN:HTML>)
- 97 Software Directive, Article 4(1)(c); Infosoc Directive, Recital 29; Rental Directive, Article 1(2).
- 98 Software Directive, Article 4(2); Infosoc Directive, Recital 28; Rental Directive, Article 9(2).
- 99 The application of the Community-wide exhaustion in the three above mentioned EEA countries is based upon especially Article 2 of Protocol No. 28. of the Agreement on the European Economic Area that entered into force on 1 January 1994. Compare to Keeling; supra note 14, pp. 115 – 119.
- 100 Jan Corbet: *The Law of the EEC and Intellectual Property*, Journal of Law and Commerce, 1994: p. 327.
- 101 Keeling, supra note 14, pp. 144 – 145.; Silke von Lewinski: *International exhaustion of the distribution right under EC copyright law?*, European Intellectual Property Law, 2005: pp. 233 – 236.
- 102 Case C-479/04 – *Laserdisken ApS v. Kulturministeriet*, 12 September 2006, European Court Reports, 2006: p. 8121., paras. 24, 26.
- 103 The resale royalty right for the benefit of artists was originally acknowledged by the Berne Union Convention in 1948. Currently it is included into Berne Union Convention, Article 14ter. Although the language of the provision is categorical, “Art. 14ter(2) subjects the right to a condition of material reciprocity. Consequently, the right is an exception to Berne’s general principle of national treatment and ‘is optional in the sense that Union countries are free to decide whether or not to introduce it and it can only be claimed if, and to the extent that, it forms part of the law where it is claimed’.” See: Goldstein - Hugenholtz, supra note 15, p. 319. Due to the this there is no uniform (global) practice on the topic. See: *Ibid.*, pp. 319 – 321.
- 104 Several decades ago Dietrich Reimer expressed his scepticism on categorizing *droit de suite* as a limit of the principle of exhaustion. See: Reimer, supra note 44, p. 367. Others stress that *droit de suite* functions as derogation from the basic rule of exhaustion. Schovsbo notes that “in my view it would be wrong, however, to see these examples as ‘exceptions’ to the general rule/principle of exhaustion. The point – in my view – rather, is that the very notion of ‘exhaustion’ is not in itself particularly precise besides some basic parameters and also that one should see exhaustion as a general principle for balancing interests in IPR between right holders and owners of copies and not as a dogma.” See: Schovsbo: supra note 62, p. 179.
- 105 Directive 2001/84/EC of the European Parliament and of the Council of 27 September 2001 on the resale right for the benefit of the author of an original work of art, Recital 2.
- 106 Directive 2001/84/EC, Recital 19.
- 107 Directive 2001/84/EC, Article 1(1).
- 108 Directive 2001/84/EC, Article 1(2).
- 109 Directive 2001/84/EC, Article 2(1).
- 110 Directive 2001/84/EC, Article 3(1)-(2).
- 111 *Bobbs-Merrill Company v. Isidor Straus and Nathan Straus*, 210 U.S. 339 (1908).
- 112 See especially: *Clemens v. Estes*, 22 Fed. Rep. 899 (1885); *Henry Bill Publishing Co. v. Smythe*, 27 Fed. Rep. 914 (1886); *Harrison v. Maynard, Merrill & Co.*, 61 Fed. Rep. 689 (1894).
- 113 *Bobbs-Merrill*, supra note 111, pp. 341 – 342.
- 114 *Ibid.*, pp. 349 – 350.
- 115 *Ibid.*, pp. 350 – 351.
- 116 The relevant section of the Revised Statutes of the United States (§4952) ruled that “[a]ny citizen of the United States or

- resident therein, who shall be the author, inventor, designer, or proprietor of any book, map, chart, dramatic or musical composition, engraving, cut, print, or photograph or negative thereof, or of a painting, drawing, chromo, statue, statuary, and of models or designs intended to be perfected as works of the fine arts, and the executors, administrators, or assigns of any such person, shall, upon complying with the provisions of this chapter, have the sole liberty of printing, reprinting, publishing, completing, copying, executing, finishing, and vending the same.”
- 117 Nimmer on Copyright, *supra* note 9, §8.12[A].
- 118 The court decision was analyzed by Kenneth R. Corsello: The Computer Software Rental Amendments Act of 1990: Another Bend in the First Sale Doctrine, *Catholic University Law Review*, 1991: pp. 189 – 190.; John C. Roa: Gray Market Goods and the First Sale Doctrine: the Last Nail in the Coffin?, *Mississippi College Law Review*, 1999: pp. 216 – 218.; Ryan Vacca: Expanding Preferential Treatment under the Record Rental Amendment Beyond the Music Industry, *Lewis & Clark Law Review*, 2007: pp. 610 – 611.; Evan Hess: Code-ifying Copyright: an Architectural Solution to Digitally Expanding the First Sale Doctrine, *Fordham Law Review*, March 2013: pp. 1998 – 1999.; Warwick A. Rothnie: Parallel Imports, *Sweet & Maxwell*, London, 1993: pp. 260 – 261.
- 119 “The concluding clause in the section, that ‘nothing in this act shall be deemed to forbid prevent, or restrict the transfer of any copy of a work copyrighted under this act the possession of which has been lawfully obtained’ is inserted in order to make it clear that there is no intention to enlarge in any way the construction to be given to the word ‘vend’ in the first section of the bill. Your committee feels that it would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the first sale.” See: *The House Report 1 on the Copyright Act of 1909*, p. 13. (<http://tinyurl.com/nzjk3n2>).
- 120 An Act to Amend and Consolidate the Acts Respecting Copyright (1909), Sec. 41. The acts related to copyright law were codified by the Congress in “United States Code, Title 17” in 1947. As a consequence of the codification the original numbering of the first sale doctrine was amended to Section 27.
- 121 On rental in Japan see: Horowitz, *supra* note 27, p. 32.
- 122 Hess, *supra* note 118, p. 1987.
- 123 Vacca, *supra* note 118, pp. 612 – 613.
- 124 S. Rep. No. 98-162, 98th Cong., 1st Sess. (1983), p. 2.
- 125 Record Rental Amendment Act of 1984, Pub. L. No. 98-450, 98 Stat. 1727. This provision was amended and renumbered (to USCA §109(b)(1)(A)) in 1990. See further: Nimmer on Copyright, *supra* note 9, §8.12[B][7]; Vacca, *supra* note 118, pp. 615 – 616.; Judith Klerman Smith: The Computer Software Rental Act: Amending the ‘First Sale Doctrine’ to Protect Computer Software Copyright, *Loyola of Los Angeles Law Review*, 1987: pp. 1636 – 1638.; I. Neel Chatterjee: Imperishable Intellectual Creations: The Limits of the First Sale Doctrine, *Fordham Intellectual Property, Media & Entertainment Law Journal*, 1994: pp. 394 – 398.
- 126 Smith, *supra* note 125, p. 1627. Others warned that the evidences related to the economic effects of software rental were not convincing enough. See: Corsello, *supra* note 118, pp. 198 – 201.
- 127 Computer Software Rental Amendments Act of 1990, title VIII of the Judicial Improvements Act of 1990, Pub. L. No. 101-650, 104 Stat 5089. On the content of the statute see: Nimmer on Copyright, *supra* note 9, §8.12[B][8][b]; Chatterjee, *supra* note 125, pp. 401 – 406.
- 128 Debra A. Opri: Video Rentals and the First Sale Doctrine: the Deficiency of Proposed Legislation, *Whittier Law Review*, 1986: p. 331.
- 129 Consumer Video Sales-Rental Amendment, H.R. 1029, 98th Cong. (1983). The bill contained the following proposal: “[u]nless authorized by the copyright owner, the owner of a particular copy of a motion picture or other audiovisual work may not, for purposes of direct or indirect commercial advantage, dispose of the possession of that copy by rental, lease, or lending, or by any other activity or practice in the nature of rental, lease, or lending.” On the pros and cons related to the bill see: Opri, *supra* note 128, pp. 340 – 347.
- 130 Sony Corporation of America, et al. v. Universal City Studios, Inc., et al., 464 U.S. 417 (1984). On the court decision see: Richard F. Reiner: Home Videorecording: Fair Use or Infringement? *Southern California Law Review*, 1978-1979: pp. 573 – 634.; Charles R. Clark: Universal City Studios, Inc. v. Sony Corporation of America: Application of the Fair Use Doctrine under the United States Copyright Acts of 1909 and 1976, *New England Law Review*, 1979-1980: pp. 661 – 681.; William Patry: In Praise of the Betamax Decision: An Examination of Universal City Studios, Inc. v. Sony Corp. of America, *South Texas Law Journal*, 1982: pp. 211 – 248.; Kim Ikeler: Sony v. Universal City Studios: Can the Marketplace Relationship between Creator and Consumer Be Preserved?, *Denver University Law Review*, 1985: pp. 873 – 897.; Nimmer on Copyright, *supra* note 9, 13.05.[F][5][b][i].
- 131 Hess, *supra* note 118, p. 1990.; Chatterjee, *supra* note 125, p. 399.
- 132 The price of a video tape recorder peaked at approximately \$1000 around the end of the 1970’s.
- 133 Opri, *supra* note 128, pp. 348 – 349.
- 134 Corsello, *supra* note 118, p. 192.; Sage Vanden Heuvel: Fighting the First Sale Doctrine: Strategies for a Struggling Film Industry, *Michigan Telecommunications and Technology Law Review*, 2012: p. 665.
- 135 NAFTA §102(1)(a).
- 136 NAFTA §§1701-1721.
- 137 “Each Party shall provide to authors and their successors in interest those rights enumerated in the Berne Convention in respect of works covered by paragraph 1, including the right to authorize or prohibit:
(a) the importation into the Party’s territory of copies of the work made without the right holder’s authorization;
(b) the first public distribution of the original and each copy of the work by sale, rental or otherwise;
(c) the communication of a work to the public; and
(d) the commercial rental of the original or a copy of a computer program.
Subparagraph (d) shall not apply where the copy of the computer program is not itself an essential object of the rental. Each Party shall provide that putting the original or a copy of a computer program on the market with the right holder’s consent shall not exhaust the rental right.” See: NAFTA §1705(2). On a similar regulation in respect of sound recordings see: NAFTA §1706(b)-(d).
- 138 Esti Miller: NAFTA: Protector of National Intellectual Property Rights or Blueprint for Globalization? The Effect of NAFTA on the First Sale Doctrine in Copyright Law, *Loyola of Los Angeles Entertainment Law Journal*, 1995: p. 501.
- 139 “Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.” See: USCA §602(a)(1).
- 140 Columbia Broadcasting System Inc. v. Scorpio Music Distributors Inc., 569 F.Supp. 47 (1983); Cosmair Inc., et al. v. Dynamite Enterprises Inc., et al., 226 U.S.P.Q. 344 (1985);

- Hearst Corporation, et al. v. J. Ben Stark, et al., 639 F.Supp. 970 (1986); T.B. Harms Company v. Jem Records, Inc., 655 F.Supp. 1575 (1987); Sebastian International Inc. v. Consumer Contacts (PTY) Ltd., et al., 847 F.2d 1093 (1987); Neutrogena Corporation v. U.S., Secretary of the Treasury, 7 U.S.P.Q.2d 1900 (1988); Red Baron-Franklin Park Inc., et al., v. Taito Corp., et al., 883 F.2d 275 (1989); BMG Music, et al., v. Edmundo Perez, et al., 952 F.2d 318 (1991).
- 141 The facts of the case are perfectly summarized by L'anza Research International v. Quality King Distributors, Inc., 98 F.3d 1109 (1996), pp. 1111 – 1112.
- 142 L'anza Research International v. Quality King Distributors, Inc., 1995 WL 908331 (C.D. Cal.).
- 143 L'anza v. Quality King, supra note 141, pp. 1114 – 1118.
- 144 As Stern noted: "it may seem to be a case of the tail wagging the dog to use a copyright on a label of a bottle of shampoo to keep the whole bottle of shampoo out of the U.S." See: Stern, supra note 20, p. 120.
- 145 Quality King Distributors, Inc. v. L'anza Research International, Inc., 523 U.S. 135 (1998), p. 145.
- 146 "Since §602(a) merely provides that unauthorized importation is an infringement of an exclusive right 'under section 106', and since that limited right does not encompass resale by lawful owners, the literal text of §602(a) is simply inapplicable to both domestic and foreign owners of L'anza products who decide to import them and resell them in the United States". See: *Ibid*, p. 145.
- 147 *Ibid*, pp. 146 – 147. As the Supreme Court stressed in its often cited hypothetical argument in dicta: "a publisher of the U.S. edition and a publisher of the British edition of the same work, each such publisher could make lawful copies. If the author of the work gave the exclusive U.S. distribution rights – enforceable under the Act – to the publisher of the U.S. edition and the exclusive British distribution rights to the publisher of the British edition, however, presumably only those made by the publisher of the U.S. edition would be 'lawfully made under this title' within the meaning of §109(a). The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under §602(a) (or, for that matter, to an action under §106(3), if there was a distribution of the copies)." See: *Ibid*, p. 148.
- 148 *Ibid*, p. 154. The decision of the Supreme Court was analyzed by Alexis Gonzalez: Why the Supreme Court Said Yes to the First Sale Doctrine in *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, *University of Miami Business Law Review*, 1999: pp. 39 – 44.; Nimmer on Copyright, supra note 9, §8.12[B][6][c]; Roa, supra note 118, pp. 225 – 233.; Maureen B. Collins: Crossing Parallel Lines: the State of the First Sale Doctrine after *Costco v. Omega*, *Buffalo Intellectual Property Law Journal*, 2012: pp. 32 – 34.; Daniela Alvarado: Seamaster-ing the First Sale Doctrine: a Tripartite Framework for Navigating the Applicability of Section 109(a) to Gray Market Goods, *Fordham Intellectual Property, Media and Entertainment Law Journal*, 2012: pp. 897 – 901.; Melissa Goldberg: A Textbook Dilemma: Should the First Sale Doctrine Provide a Valid Defense for Foreign-Made Goods?, *Fordham Law Review*, 2012: pp. 3072 – 3075.; Benjamin Hamborg: John Wiley & Sons, Inc. v. Kirtsaeng: the Uncertain Future of the First-Sale Doctrine, *Minnesota Journal of Law, Science and Technology*, 2012: pp. 907 – 908.; Mihály Ficsor: Current Issues of exhaustion of rights (Kirtsaeng & Quality King, *ReDigi v. UsedSoft*), *Copyright See-Saw Blog*, 28 January 2014, pp. 28 – 35. (http://www.copyrightseesaw.net/archive/?sw_10_item=55).
- 149 The facts of the case are summarized by Omega S.A., et al., v. Costco Wholesale Corp., 541 F.3d 982 (2008), pp. 983 – 984.
- 150 Omega S.A., et al., v. Costco Wholesale Corp., 2007 WL 7029734 (2007).
- 151 Omega v. Costco, supra note 149, p. 987.
- 152 *Ibid.*, p. 990. The decision was discussed by Richard H. Stern: USA: copyright - transnational exhaustion of rights, *European Intellectual Property Review*, 2009/3: pp. N31 – 32.; Alvarado, supra note 148, pp. 909 – 911.; Goldberg, supra note 148, pp. 3075 – 3078.; Lindsay R. Aldridge: Costco v. Omega and the First Sale Doctrine, *North Carolina Journal of Law & Technology*, 2011: pp. 327 – 334.; Hamborg, supra note 148, pp. 908 – 911.; Thomas J. Bacon: Caveat Bibliotheca: The First Sale Doctrine and the Future of Libraries After Omega v. Costco, *John Marshall Review of Intellectual Property Law*, 2011: pp. 427 – 438.
- 153 Costco Wholesale Corp., v. Omega S.A., 131 S.Ct. 565 (2010). Justice Elena Kagan did not participate in the decision-making, since she was serving as Attorney General during the proceedings of the Ninth Circuit.
- 154 The Supreme Court handed over only 92 per curiam decisions during 2001-2011, and the justices only missed to reason their decision in five cases. From the said 92 decisions only one case focused on copyright law. See: Michael Eismach: Omega v. Costco: An Unprecedented Decision Without Precedent, *ABA Section of International Law, International Intellectual Property Newsletter*, Spring 2011: p. 4. On the definition of per curiam see: Bryan A. Garner (Ed.): *Black's Law Dictionary*, Abridged Eighth Edition, Thomson-West, 2005: p. 922.
- 155 "[T]he misuse defense prevents copyright holders from leveraging their limited monopoly to allow them to control areas outside of their monopoly". See: A & M Records, Inc., et al., v. Napster, Inc., et al., 239 F.3d 1004 (2001), p. 1026. The theory of copyright misuse has been developed from the doctrine of patent misuse through analogy. As commentators highlight: "[t]he defense applies in cases where a copyright owner seeks, typically through licensing, to use the copyright to gain rights beyond those granted by the Act, in a way that violates public policy. If a court finds that the copyright owner has engaged in misuse, then the copyright will be unenforceable until the effects of the misuse have dissipated." See: Alfred C. Yen - Joseph P. Liu: *Copyright Law - Essential Cases and Materials*, Second Edition, American Casebook Series, West, 2011: p. 440.
- 156 Omega S.A. v. Costco Wholesale Corp., 2011 WL 8492716 (2011), p. 2.
- 157 John Wiley & Sons, Inc. v. Kirtsaeng, 654 F.3d 210 (2011), pp. 212 – 216.
- 158 "[T]he court concludes that the Supreme Court's unambiguous language, though dicta, is sufficient to resolve the uncertainties in interpreting the Act. Although this is perhaps an imperfect solution, given the valid concerns raised in both readings of sections 109 and 602, the court nonetheless will not extend section 109(a) to cover foreign-manufactured goods." See: John Wiley & Sons, Inc. v. Supap Kirtsaeng, et al., 2009 WL 3364037 (2009), p. 9.
- 159 "Section 602(a)(1) prohibits the importation into the United States of copies of copyrighted works acquired broad without the authorization of the copyright holder. This provision is obviously intended to allow copyright holders some flexibility to divide or treat differently the international and domestic markets for the particular copyrighted work. If the first sale doctrine codified in §109(a) only applies to copyrighted copies manufactured domestically, copyright holders would still have a free hand (...) to control the circumstances in which copies manufactured abroad could be legally imported into the United States. On the other hand, the mandate of §602(a)(1) (...) would have no force in the vast majority of cases if the first sale doctrine was interpreted to apply to every copy manufactured abroad that was either made 'subject to protection under Title 17,' or 'consistent with the requirements of Title 17 had Title 17 been applicable." See: John Wiley & Sons v. Kirtsaeng, supra note 157, p. 221.

- 160 “If Congress intended §109(a) to apply only to copies manufactured in the United States, it could have stated ‘lawfully manufactured in the United States under this title.’ As Congress did not include ‘manufactured in the United States’ in §109(a), though it was clearly capable of doing so as demonstrated by §601(a), the omission supports the conclusion that Congress did not intend the language ‘lawfully manufactured under this title’ to limit application of §109(a) to only copies manufactured in the United States”. See: *Ibid*, pp. 226 – 227.
- 161 *Ibid*, p. 228.
- 162 *Ibid*, pp. 227 – 228.
- 163 *Supap Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S.Ct. 1351 (2013), pp. 1358 – 1360.
- 164 *Ibid*, pp. 1361 – 1362.
- 165 *Ibid*, pp. 1367 – 1368.
- 166 *Ibid*, pp. 1364 – 1367.
- 167 *Ibid*, p. 1371. The Supreme Court’s argument is clearly the opposite of the US Government’s position taken during the negotiations of the WCT/WPPT. Compare to Ficsor, *supra* note 34, pp. 241 – 242., 245 – 246., 248 – 249.
- 168 See further: *Ganghua Liu v. Pearson Education, Inc., et al.*, 133 S.Ct. 1630 (2013); *Vinod Kumar, et al., v. Pearson Education, Inc., et al.*, 133 S.Ct. 1631 (2013).
- 169 The term “making available to the public” appears in the USCA six times, however, none of these provisions are related to the meaning of the above expression as it has been envisaged by the WCT/WPPT.
- 170 Information Infrastructure Task Force, Intellectual Property and the National Information Infrastructure: A Preliminary Draft of the Report of the Working Group on Intellectual Property Rights, July 1994: pp. 121 – 122. (Hereinafter referred to as US Green Paper.); Information Infrastructure Task Force, Intellectual Property and the National Information Infrastructure: The Report of the Working Group on Intellectual Property Rights, September 1995: pp. 213 – 214. (Hereinafter referred to as US White Paper.)
- 171 *Atlantic Recording Corporation, et al., v. Pamela and Jeffrey Howell*, 554 *F.Supp.2d* 976 (2008); *London-Sire Records, Inc., et al., v. Doe 1, et al.*, 542 *F.Supp.2d* 153 (2008); *Sony BMG Music Entertainment, et al., v. Joel Tenenbaum*, 660 *F.3d* 487 (2011).
- 172 *Universal City Studios Prods. LLP, et al., v. Clint Bigwood*, 441 *F.Supp.2d* 185 (2006); *Motown Record Co., LP, et al., v. Theresa DePietro*, 2007 *WL* 576284; *Atl. Recording Corp., et al., v. Abner Anderson*, 2008 *WL* 2316551; *Elektra Entertainment Group., Inc., et al., v. Denise Barker*, 551 *F.Supp.2d* 234 (2008); *Capitol Records, Inc., et al., v. Jammie Thomas-Rasset*, 692 *F.3d* 899 (2012).
- 173 Maria A. Pallante: *The Next Great Copyright Act*, *Columbia Journal of Law & the Arts*, 2013: pp. 324 – 325.
- 174 *Nimmer on Copyright*, *supra* note 9, §8.11[C][4][c].
- 175 Peter S. Menell: *In Search of Copyright’s Lost Ark: Interpreting the Right to Distribute in the Internet Age*, *Journal of the Copyright Society of the USA*, 2012: pp. 201 – 267.
- 176 Case C-128/11 – *UsedSoft GmbH v. Oracle International Corp.*, 3 July 2012, ECLI:EU:C:2012:407. On the analysis of the CJEU’s decision see: Thomas Vinje - Vanessa Marsland - Anette Gärtner: *Software Licensing after Oracle v. UsedSoft - Implications of Oracle v. UsedSoft (C-128/11) for European Copyright Law*, *Computer Law Review International*, 2012: pp. 97 – 102.; Michaela Witzel: *Remarks to EU: Exhaustion of Distribution Right for Software Copy*, *Computer Law Review International*, 2012: pp. 121 – 123.; Jochen Schneider - Gerald Spindler: *Der Kampf um die gebrauchte Software - Revolution im Urheberrecht? - Das Urteil des EuGH vom 3.7.2012 - Rs. C-128/11 - “UsedSoft” Gebrauchte Software*, *Computer und Recht*, 2012: pp. 492 – 493.; Helmut Haberstumpf: *Der Handel mit gebrauchter Software im harmonisierten Urheberrecht - Warum der Ansatz des EuGH einen falschen Weg zeigt*, *Computer und Recht*, 2012: pp. 561 – 572.; Thomas Hoeren - Matthias Försterling: *Onlinevertrieb “gebrauchter“ Software - Hintergründe und Konsequenzen der EuGH-Entscheidung “UsedSoft“*, *Multimedia und Recht*, 2012: pp. 642 – 647.; Martin Senftleben: *Die Fortschreibung des urheberrechtlichen Erschöpfungsgrundsatzes im digitalen Umfeld*, *Neue Juristische Wochenschrift*, 2012: pp. 2924 – 2927.; Lukas Feiler: *Birth of the First-Download Doctrine: the Application of the First-Sale Doctrine to Internet Downloads under EU and U.S. Copyright Law*, *Journal of Internet Law*, October 2012: pp. 16 – 17.; Thomas Hartmann: *Weiterverkauf und “Verleih” online vertriebener Inhalte - Zugleich Anmerkung zu EuGH, Urteil vom 3. Juli 2012, Rs. C-128/11 - UsedSoft ./.* *Oracle, Gewerblicher Rechtsschutz und Urheberrecht*, 2012: pp. 980 – 984.; Fiona Maclean: *European Union (CJEU) has delivered its long-awaited decision in UsedSoft v. Oracle International Corp.*, *Computer and Telecommunications Law Review*, 2013: pp. 1 – 2.; Erik Verbraeken: *The Exhaustion Theory is not yet Exhausted*, *les Nouvelles*, March 2013: pp. 7 – 12.; P. Sean Morris: *Beyond Trade: Global Digital Exhaustion in International Economic Regulation*, *Campbell Law Review*, Fall 2013: pp. 118 – 124.; Thomas Dreier - Matthias Leistner: *Urheberrecht im Internet: die Forschungsherausforderungen*, *Gewerblicher Rechtsschutz und Urheberrecht*, 2013: pp. 887 – 888.; Ellen Franziska Schulze: *Resale of digital content such as music, films or eBooks under European law*, *European Intellectual Property Review*, 2014: pp. 9 – 13.; Giorgio Spedicato: *Online Exhaustion and the Boundaries of Interpretation*. In: Roberto Caso - Federica Giovanella (Eds.): *Balancing Copyright Law in the Digital Age - Comparative Perspectives*, Springer Verlag, Berlin - Heidelberg, 2015: pp. 40 – 45.
- 177 German courts have faced with many other challenging cases parallel with the *UsedSoft* case. One of the rulings excluded the applicability of the doctrine of exhaustion to the split of volume licenses. See: *LG München I. 19.01.2006 (7 O 23237/05) - Zeitschrift für Urheber- und Medienrecht*, 2006: pp. 251 – 255. Compare to: Malte Grützmacher: *»Gebrauchtssoftware« und Erschöpfungsgrundlehre: zu den Rahmenbedingungen eines Second-Hand-Marktes für Software*, *Zeitschrift für Urheber- und Medienrecht*, 2006: pp. 302 – 306. Another fascinating decision focused on and prohibited the resale of certificates of authenticity of Microsoft Office XP software. See: *OLG Frankfurt 12.05.2009 (11 W 15/09) - Handel mit Software-Echtheitszertifikaten und Product-Keys*, *Medien Internet und Recht*, 06/2009: pp. 1 – 4. (http://medien-internet-und-recht.de/pdf/VT_MIR_2009_131.pdf). Compare to Thomas Hoeren: *Die Online-Erschöpfung im Softwarebereich - Fallgruppen und Beweislast*, *Multimedia und Recht*, 2010: p. 448. Exhaustion was discussed in connection with the resale of software sold originally on hardware as well. See *OLG Düsseldorf 29.06.2009 (20 U 247/08) - Zweck des Erschöpfungsgrundsatzes*, *Gewerblicher Rechtsschutz und Urheberrecht Rechtssprechungs-Report*, 2009: pp. 4 – 5. Compare to: Christian Rutz: *Germany: copyright - exhaustion of rights and re-sale of pre-installed software*, *European Intellectual Property Review*, 2009: pp. N48 – 50. Further, the Federal Court of Justice decided that whilst the physical copy of a computer game (the DVD) is subject to the principle of exhaustion, the resale of the end-user’s online account can contractually be prohibited. See: *BGH 11.02.2010 (I ZR 178/08) - Half-Life 2*, *Gewerblicher Rechtsschutz und Urheberrecht*, 2010: pp. 822 – 824.
- 178 Case C-128/11, *supra* note 176, para. 23.
- 179 *Ibid*, para. 24.
- 180 On the facts of the case see: *Ibid*, paras. 20-26. *UsedSoft* was sued by multiple other copyright holders in Germany and under different jurisdiction as well. See: Christopher Stothers: *When is Copyright Exhausted by a Software Licence?: UsedSoft v. Oracle*, *European Intellectual Property Review*, 2012: p. 788.

- 181 LG München I. 15.03.2007 (7 O 7061/06) - Handel mit „gebrauchten“ Softwarelizenzen, Zeitschrift für Urheber- und Medienrecht, 2007: pp. 409 – 417.
- 182 OLG München 03.07.2008 (6 U 2759/07) - Handel mit „gebrauchten“ Softwarelizenzen, Zeitschrift für Urheber- und Medienrecht, 2009: pp. 70 – 74. (Anm. Herzog)
- 183 As the CJEU summarized, “[t]here are several possible interpretations. First, Article 4(2) of Directive 2009/24 could be applicable if the right holder allows a customer, after the conclusion of a licence agreement, to make a copy of a computer program by downloading that program from the internet and storing it on a computer. That provision attaches the legal consequence of exhaustion of the distribution right to the first sale of a copy of the program and does not necessarily presuppose the putting into circulation of a physical copy of the program. Second, Article 4(2) of Directive 2009/24 could be applicable by analogy in the case of the sale of a computer program by means of on-line transmission. According to the supporters of that view, there is an unintended lacuna in the law (‘planwidrige Regelungslücke’) because the authors of the directive did not regulate or contemplate on-line transmission of computer programs. Thirdly, Article 4(2) of Directive 2009/24 is inapplicable because the exhaustion of the distribution right under that provision always presupposes the putting into circulation of a physical copy of the program by the right holder or with his consent. The authors of the directive deliberately refrained from extending the rule on exhaustion to the on-line transmission of computer programs.” See: Case C-128/11, supra note 176, para. 32.
- 184 Ibid, para. 33. On the questions raised by the BGH see: Matthias Leistner: Gebrauchte Software auf dem Weg nach Luxemburg - Der Vorlagebeschluss des BGH in Sachen Oracle v. UsedSoft, Computer und Recht, 2011: pp. 209 – 215.; 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, Computer Law Review International, 2012: pp. 1 – 9.; Schneider - Spindler: supra note 176, pp. 491 – 492.
- 185 Case C-128/11, supra note 176, para. 36.
- 186 Ibid, para. 38.
- 187 Ibid, paras. 39-41.
- 188 Ibid, para. 42.
- 189 Ibid, para. 43.
- 190 This wording resembles the CJEU’s former case law: “the specific subject-matter of the intellectual property does not guarantee the right holders concerned the opportunity to demand the highest possible remuneration. Consistently with its specific subject-matter, they are ensured – as recital 10 in the preamble to the Copyright Directive and recital 5 in the preamble to the Related Rights Directive envisage – only appropriate remuneration for each use of the protected subject-matter. In order to be appropriate, such remuneration must be reasonable in relation to the economic value of the service provided. In particular, it must be reasonable in relation to the actual or potential number of persons who enjoy or wish to enjoy the service.” See: Joined Cases C-403/08 and C-429/08 - Football Association Premier League Ltd and Others v. QC Leisure and Others, 4 October 2011, ECLI:EU:C:2011:631, paras. 108-109.
- 191 Case C-128/11, supra note 176, paras. 44-49.
- 192 Compare to WCT Article 8. and InfoSoc Directive Article 3(1).
- 193 Case C-128/11, supra note 176, paras. 50-51.
- 194 Ibid, paras. 53-59.
- 195 Ibid, para. 60.
- 196 Ibid, para. 61.
- 197 Ibid, para. 63.
- 198 Ibid, para. 67., see further paras. 64-66., 68.
- 199 Ibid, paras. 69-71.
- 200 Ibid, paras. 73-87.
- 201 BGH 17.07.2013 (I ZR 129/08) - Zulässigkeit des Vertriebs gebrauchter Softwarelizenzen - UsedSoft II., Gewerblicher Rechtsschutz und Urheberrecht, 2014: pp. 264 – 272. (Anm. Stieper).
- 202 Under Article 345 of the Treaty on the Functioning of the European Union (TFEU): “The Treaties shall in no way prejudice the rules in Member States governing the system of property ownership.” On this Article see especially: Bram Akkermans - Eveline Ramaekers: Article 345 TFEU (ex. 295 EC), Its Meanings and Interpretations, *European Law Journal*, 2010: pp. 292 – 314.
- 203 UsedSoft II., supra note 201, p. 267., paras. 34-36.
- 204 Ibid, paras. 37-40.
- 205 Ibid, p. 269., paras. 58-60.
- 206 Ibid, p. 269-270., paras. 61-62.
- 207 Ibid, p. 270., paras. 63-65. Interestingly, the Federal Appellate Court of Frankfurt am Main handed over a different holding in a parallel proceeding against UsedSoft. There, Adobe concluded licence agreements with educational institutions. Here, again, software were subject to download from Adobe’s website. The respective defendant of the case purchased 40 individual licence keys, and later resold two of these. Unlike in the above UsedSoft v. Oracle decision, the appellate court concluded here that since the total number of the licence keys did not change after the transfer of the two said licence keys, the resale by the defendant was therefore not illegal. See: OLG Frankfurt am Main 18.12.2012 (11 U 68/11) - Erschöpfung des Verbreitungsrechts on online übermittelter Software - Adobe/UsedSoft, Gewerblicher Rechtsschutz und Urheberrecht, 2013: p. 282.
- 208 UsedSoft II., supra note 201, p. 267., paras. 66-68.
- 209 Capitol Records, LLC, v. ReDigi Inc., 934 F.Supp.2d 640 (2013). On the analysis of the case see: Morris, supra note 176, pp. 124 – 129.; Mathias Lejeune: Remarks to USA: No Second Hand Digital Music (Yet), Computer Law Review International, 2013: pp. 88 – 90.; John T. Soma - Michael K. Kugler: Why Rent When You Can Own? How ReDigi, Apple, and Amazon Will Use the Cloud and the Digital First Sale Doctrine to Resell Music, E-books, Games, and Movies, North Carolina Journal of Law & Technology, 2014: pp. 436 – 449.; B. Makoa Kawabata: Unresolved Textual Tension: Capitol Records v. ReDigi and a Digital First Sale Doctrine, UCLA Entertainment Law Review, 2014: pp. 55 – 71.
- 210 Capitol Records v. ReDigi, supra note 209, p. 644. ReDigi’s self-description is not totally correct. A start-up called Bopaboo turned up at the end of 2008 (and vanished rapidly), and claimed to allow for the resale of mp3 files. See: Nakimuli Davis: Reselling Digital Music: is there a Digital First Sale Doctrine?, Loyola of Los Angeles Entertainment Law Review, 2009: pp. 368 – 369.
- 211 According to ReDigi’s claims “[u]pon the upload of an Eligible File [includes only files that have been originally and legally downloaded from iTunes or subsequently from ReDigi, thus excluding music tracks copied from CDs, downloaded from other online vendors or file sharers, or obtained from another outside source] to a user’s Cloud Locker, such file and all copies thereof residing on the user’s computer, and on attached synchronization and storage devices, are deleted. If the user were to attempt to upload the file without first accepting the prompt to delete the other copy or copies deleted by Music Manager, the upload would be blocked.” Further “(a) the metadata and the acoustics are checked for validity; (b) the metadata are checked to ensure that no other ReDigi user has sold, has offered for sale, or is storing, a file with the same relevant metadata; (c) if the file fails either of these tests, it is

- discarded; (d) if it passes, then the file is stored on disk along with all the other music files; (e) the user's locker is updated to include the relevant metadata of the file and a "pointer" to the 'location' of the file." See: Adrienne Clare Barbour: *Used iTunes: the Legality of ReDigi's Model for a Second-Hand Digital Music Store*, *Tulane Journal of Technology and Intellectual Property*, Fall 2012: pp. 190 – 191.
- 212 iTunes' Terms of Sale nowhere mention that it provides for a licence to use the tracks sold by the company. Unlike in case of many other online music stores this technically means that music files downloaded from iTunes are lawfully purchased contents that are ultimately owned by the clients of iTunes. See: *Ibid*, p. 195.; Soma - Kugler, *supra* note 209, p. 436.
- 213 *Capitol v. ReDigi*, *supra* note 209, pp. 644 – 646. On the facts of the case see further: Barbour, *supra* note 211, pp. 189 – 192.
- 214 *Capitol v. ReDigi*, *supra* note 209, pp. 646 – 647.
- 215 It might be noted that the decision includes several clear mistakes that need to be addressed by the Second Circuit on appeal. Such an example is the false discussion of direct liability of ReDigi. Compare to: *Ibid*, pp. 656 – 658. This part of the decision has already received negative treatment from US judges. See: Andrew Paul Leonard v. Stemtech Health Sciences, Inc., et al., 2013 *WL* 5288266.
- 216 *Capitol v. ReDigi*, *supra* note 209, p. 648.
- 217 USCA §101. It might be noted that ReDigi tried to convince the court the used mp3 files shall be deemed as computer programs. This allegation is, however, clearly without merit. Compare to: Barbour, *supra* note 210, p. 193.
- 218 USCA §101.
- 219 *London-Sire Records, Inc. v. John Doe 1*, 542 F.Supp.2d 153 (2008).
- 220 *Capitol v. ReDigi*, *supra* note 209, p. 649.
- 221 "ReDigi stresses that it 'migrates' a file from a user's computer to its Cloud Locker, so that the same file is transferred to the ReDigi server and no copying occurs. However, even if that were the case, the fact that a file has moved from one material object – the user's computer – to another – the ReDigi server – means that a reproduction has occurred. Similarly, when a ReDigi user downloads a new purchase from the ReDigi website to her computer, yet another reproduction is created." See: *Ibid*, p. 650.
- 222 *Ibid*, p. 651.
- 223 *Ibid*, pp. 652 – 654.
- 224 *Supra* note 215.
- 225 The district court analyzed the theory of contributory and vicarious liability quite properly. See: *Capitol v. ReDigi*, *supra* note 209, pp. 658 – 660.
- 226 Compare to: *Recording Industry Association of America v. Diamond Multimedia Systems, Inc.*, 180 F.3d 1072 (1999). On the analysis of the case see: Dwayne K. Goetzl: *Recent Developments in Copyright Law*, *Texas Intellectual Property Law Journal*, 1999: pp. 459 – 460.; Robyn Axberg: *File-Sharing Tools and Copyright Law: A Study of In Re Aimster Copyright Litigation and MGM Studios, Inc. v. Grokster, Ltd.*, *Loyola University Chicago Law Review*, 2003: pp. 411 – 414.; William S. Coats - Heather D. Rafter - Vickie L. Feeman - John G. Given: *Blows against the Empire: Napster, Aimster, Grokster and the War against P2P File Sharing*, *Practising Law Institute*, 2003: pp. 455 – 471. There is some negative treatment of this decision as well. The famous Napster decision correctly distinguished between copying from a PC to a portable player and the exchange of files by multiple users via the P2P file-sharing service of Napster. See: *A&M Technology, Inc., et al., v. Napster, Inc., et al.*, 239 F.3d 1004 (2001).
- 227 "As a result, we find that the district court erred in concluding that Cablevision, rather than its RS-DVR customers, makes the copies carried out by the RS-DVR system." See: *Cartoon Network LP, LLLP, et al. v. CSC Holdings, Inc., et al.*, 536 F.3d 121 (2008), p. 132.
- 228 *Capitol v. ReDigi*, *supra* note 209, p. 654. ("The clear inference is that ReDigi will divert buyers away from that primary market.")
- 229 Compare to note *supra* 53.
- 230 *Capitol v. ReDigi*, *supra* note 209, p. 655.
- 231 *Ibid*.
- 232 Compare to note *supra* 218.
- 233 Compare to note *supra* 222.
- 234 *Capitol v. ReDigi*, *supra* note 209, pp. 655 – 656.
- 235 OLG Stuttgart 03.11.2011 (2 U 49/11) - Keine Erschöpfung bei Online-Vertrieb von Hörbüchern, *Computer und Recht*, 2012: pp. 301 – 302. (Anm. Schmidt). See further: Clemens Appl - Marlene Schmidt: *Zweitverwertung gebrauchter Digitalgüter - Die Folgen des UsedSoft-Urteils für Schöpfungen anderer Werkarten*, *Medien und Recht*, 2014/4: p. 193.
- 236 According to Article 8 of the contract: "Our products and all contributions contained therein are protected by copyright law and contain inaudible digital watermarks. Any use and disclosure to third parties, which is not expressly permitted by the Copyright Act, requires our prior consent (pursuant to §§ 182, 183 BGB). In case of violation, we reserve the right to take legal action, unless otherwise expressly agreed by contract. The purchaser of the audio books and other media files offered in the portal acquires only a right to use, he does not acquire ownership. The resale is prohibited." The article was formulated in German language as follows: "Unsere Ware sowie alle darin enthaltenen Beiträge sind urheberrechtlich geschützt und mit unhörbaren digitalen Wasserzeichen versehen. Jede Verwertung und Weitergabe an Dritte, die nicht ausdrücklich von Urheberrechtsgesetz zugelassen sind, bedürfen unserer vorherigen Zustimmung (gem. §§ 182, 183 BGB). Im Falle der Zuwiderhandlung behalten wir uns rechtliche Schritte vor, es sei denn, dass bei Vertragsschluss ausdrücklich eine anderweitige Vereinbarung erfolgt ist. Der Käufer der im Portal ... angebotenen Hörbücher und sonstigen Mediendateien erwirbt lediglich ein Nutzungsrecht, kein Eigentum. Der Weiterverkauf ist untersagt." See: OLG Stuttgart, *supra* note 235, p. 300.
- 237 *Ibid*, p. 302.
- 238 *Ibid*, p. 303.
- 239 LG Bielefeld 05.03.2013 (4 O 191/11) - Einschränkung der Rechte beim Erwerb urheberrechtlich geschützter Werke über das Internet, *Zeitschrift für Urheber- und Medienrecht*, 2013: pp. 688 – 694. See further: Appl - Schmidt, *supra* note 235, pp. 193 – 194.
- 240 OLG Hamm 15.05.2014 (22 U 60/13) (not published yet). Available via: <http://openjur.de/u/692344.html>. The paper hereinafter refers to the text available via the above link.
- 241 §10(3): In terms of this offer, the customer acquires the simple, non-transferable right to use the titles offered for personal use only in accordance with copyright law and in the way mentioned in the individual offer. It is not permitted to modify the content of the downloads in any way or to edit them or to make use of modified versions, to copy them for others, to make them available for the public or forward them, to adjust them to the internet or to other networks for remuneration or free of charge, to imitate them, to resell them or to use them for commercial purposes." The original German text noted that "Im Rahmen dieses Angebotes erwirbt der Kunde das einfache, nicht übertragbare Recht, die angebotenen Titel zum ausschließlich persönlichen Gebrauch gemäß Urheberrechtsgesetz in der jeweils angebotenen Art und Weise zu nutzen. Es ist nicht gestattet, die Downloads in irgendeiner Weise inhaltlich und redaktionell zu ändern oder geänderte Versionen zu benutzen, sie für Dritte zu kopieren, öffentlich

zugänglich zu machen bzw. weiterzuleiten, im Internet oder in andere Netzwerke entgeltlich oder unentgeltlich einzustellen, sie nachzuahmen, weiterzuverkaufen oder für kommerzielle Zwecke zu nutzen." See: *Ibid*, para. 12.

- 242 *Ibid*, paras. 47-49.
- 243 Streaming covers all technological solutions, where media contents (generally audio and audiovisual works) are transmitted for the purposes of receipt and display by the end-user without the ability to produce permanent copies of the said contents. The streaming technology has traditionally two major types. First, live streaming (like webcasting) shall be treated as communication to the public from the perspective of the transmitting party. Second, contents might be access at a time and at a place chosen by the end-user, that is, "on-demand". That kind of streaming shall be treated as making available to the public. Since no permanent copy is made by the end-user in any of the two above scenario, the end-users act is covered by the temporary act of reproduction (as discussed by Article 5(1) of the InfoSoc Directive). Compare to von Lewinski: supra note 12, p. 457., para. 17.76.; Mareile Büscher - Judith Müller: Urheberrechtliche Fragestellungen des Audio-Video-Streamings, Gewerblicher Rechtsschutz und Urheberrecht, 2009: p. 558.; Artur-Axel Wandtke - Felix-Tessen von Gerlach: Die urheberrechtliche Rechtmäßigkeit der Nutzung von Audio-Video Streaminginhalten im Internet, Gewerblicher Rechtsschutz und Urheberrecht, 2013: pp. 676 – 683.
- 244 OLG Hamm, supra note 240, paras. 50-105.
- 245 *Entwurf eines Gesetzes zur Ermöglichung der privaten Weiterveräußerung unkörperlicher Werkexemplare*, Drucksache 17/8377, 18.01.2012 (http://www.cr-online.de/20120207_1708377.pdf).
 "§17a Weiterveräußerung von Werkexemplaren
 (1) Vervielfältigungsstücke des Werkes, die vom Berechtigten im Gebiet der Europäischen Union oder eines anderen Vertragsstaates des Abkommens über den Europäischen Wirtschaftsraum im Wege der Veräußerung in Verkehr gebracht wurden, dürfen vom rechtmäßigen Erwerber weiterveräußert werden, soweit dieser keine weitere Vervielfältigung des veräußerten Werkexemplars zurückbehält.
 (2) Das Recht zur Weiterveräußerung kann nicht vertraglich abbedungen werden. Eine öffentliche Zugänglichmachung von Vervielfältigungsstücken des Werkes durch den Erwerber ist nicht zulässig."
- 246 It is not the task of the present paper to criticize the above text. It might be noted, however, that whilst the proposal called for the analogue application of the doctrine of exhaustion to tangible and intangible copies, the draft text of Article 17a did not properly mirror this plan. All the elements included in the draft text could have been deducted from the existing case law and academic analysis.
- 247 OLG Hamm, supra note 240, paras. 108-122.
- 248 *Ibid*, paras. 126-152.
- 249 Nate Hoffelder: Used eBook Website Launches in Europe, *The Digital Reader*, 19 June, 2014 (<http://the-digital-reader.com/2014/06/19/used-ebook-website-launches-europe/>).
- 250 Nate Hoffelder: Used eBook Website Faces Lawsuit in Europe, *The Digital Reader*, 27 June, 2014 (<http://the-digital-reader.com/2014/06/27/used-ebook-website-faces-lawsuit-europe/>).
- 251 Joke Bodewits: The reselling of second hand e-books allowed in the Netherlands, *E-Commerce Law Reports*, 2014/4: p. 10 – 11.; Nate Hoffelder: Publishers Lose First Round of Lawsuit against Used eBook Marketplace, *The Digital Reader*, 21 July, 2014 (<http://the-digital-reader.com/2014/07/21/publishers-lose-first-round-lawsuit-used-ebook-marketplace/>).
- 252 Bodewits, supra note 251, p. 11.
- 253 Compare to: Saba Sluiter: The Dutch courts apply UsedSoft to the resale of eBooks, *Kluwer Copyright Blog*, January 28, 2015 (<http://kluwercopyrightblog.com/2015/01/28/the-dutch-courts-apply-usedsoft-to-the-resale-of-ebooks/>)
- 254 Compare to note 180.
- 255 Case C-128/11, supra note 176, para. 49.
- 256 *Ibid*.
- 257 Compare to Stieper's notes to UsedSoft II., supra note 201, pp. 270 – 271.
- 258 Stothers, supra note 180, p. 790.
- 259 Compare to the text quoted supra note 190.
- 260 On the "Belohnungstheorie" see especially Reimer, supra note 13, pp. 225 – 226.
- 261 Case C-128/11, supra note 176, paras. 42 and 49.
- 262 Ruffler, supra note 57, p. 378.
- 263 Haberstumpf, supra note 176, pp. 562 – 567.
- 264 Compare to supra note 203.
- 265 Case C-128/11, supra note 176, para. 42.
- 266 BGH 22.12.1999 (VIII ZR 299/98) - Ablieferung von Standard-Software, *JurPC Web-Dok* 70/2000, Abs. 1-26. (<http://www.jurpc.de/jurpc/show?id=20000070>); BGH 15.11.2006 (XII ZR 120/04) - Zur Rechtsnatur der Softwareüberlassung im Rahmen eines ASP-Vertrages, *Medien Internet und Recht*, 01/2007: p. 3. (http://medien-internet-und-recht.de/pdf/vt_MIR_Dok_009-2006.pdf). A similar court decision was handed over by the Austrian Federal Supreme Court in 2000. See: OGH 23.05.2000 4 Ob 30/00s. In: *Medien und Recht*, 2000/4: pp. 249 – 253. (Anm. Walter). Compare to Appl - Schmidt, supra note 235, p. 192.
- 267 This concept is clearly supported by another preliminary ruling of the CJEU. In the so-called Le Corbusier case the Court of Justice stressed that "[s]ince Article 4(1) of Directive 2001/29 provides, in such a context, for 'distribution by sale or otherwise', that concept should be interpreted in accordance with those Treaties [WCT; WPPT] as a form of distribution which entails a transfer of ownership." See: Case C-456/06 - Peek & Cloppenburg KG v. Cassina SpA, 17 April 2008, ECLI:EU:C:2008:232.
- 268 OLG Stuttgart, supra note 235, p. 351.; OLG Hamm, supra note 240, paras. 151-158.
- 269 BGB § 453 para. (1). Compare to Olaf Sosnitzer: Gemeinschaftsrechtliche Vorgaben und urheberrechtlicher Gestaltungsspielraum für den Handel mit gebrauchter Software, *Zeitschrift für Urheber- und Medienrecht*, 2009: pp. 524 – 525.
- 270 Hoeren, supra note 177, pp. 447 – 448.
- 271 German Copyright Act (Urheberrechtsgesetz vom 9. September 1965 (BGBl. I S. 1273), das zuletzt durch Artikel 1 des Gesetzes vom 1. Oktober 2013 (BGBl. I S. 3728) geändert worden ist, hereinafter referred to as: dUrHG) Article 34(1).
- 272 See for example William Krause v. Titleserv, Inc., 402 F.3d 119 (2005). Compare to Barbour: supra note 211, pp. 186 – 187.; Jonathan C. Tobin: Licensing as a Means of Providing Affordability and Accessibility in Digital Markets: Alternatives to a Digital First Sale Doctrine, *Journal of the Patent and Trademark Office Society*, 2011: p. 174.
- 273 Compare to Andrew Degner: Wise-ing Up about the First Sale Doctrine: a Look at the Ninth Circuit's Approach to Vernor v. Autodesk, *Columbia Journal of Law & the Arts*, 2012: p. 596.
- 274 United States v. Wise, 550 F.2d 1180 (1977), pp. 1190 – 1192. On the analysis of the case see: Gary Donatello: Killing the Secondary Market: How the Ninth Circuit Interpreted Vernor and Aftermath to Destroy the First Sale Doctrine, *Seton Hall Journal of Sports and Entertainment Law*, 2012: pp. 66 – 67.
- 275 Compare to the texts related to notes 239 and 244.

- 276 John Hampton, et al. v. Paramount Pictures Corporation, et al., 279 F.2d 100 (1960) cert. denied 364 U.S. 882 (1960); MAI Systems Corp. v. Peak Computer, Inc., 991 F.2d 511 (1993); Triad Systems Corp. v. Southeastern Express Company, 64 F.3d 1330 (1995); Wall Data, Inc. v. Los Angeles County Sheriff's Department, 447 F.3d 769 (2006); F.B.T. Records, LLC, et al. v. Aftermath Records, et al., 621 F.3d 958 (2010); Timothy S. Vernor v. Autodesk, Inc., 621 F.3d 1102 (2010).
- 277 Under clause 16(e) of the original contract "[r]ecords [are] all forms of reproductions, whether embodying sound alone or sound together with visual images, manufactured or distributed primarily for home use." Compare to: F.B.T. Records, LLC, et al. v. Aftermath Records, et al., No. CV 07-3314 PSG (MANx), 2009 WL 137021, p. 1.
- 278 Under clause 16(d) of the original contract "master [is defined as] a recording of a sound, without or with visual images, which is used or useful in the recording, production or manufacture of records." See: *Ibid*.
- 279 F.B.T. Records v. Aftermath Records, *supra* note 276, p. 967. Later the Supreme Court refused to grant a writ of certiorari. See: Aftermath Records, et al. v. F.B.T. Records, LLC, et al., 131 S.Ct. 1677 (2011).
- 280 On the facts of the case see Vernor v. Autodesk, *supra* note 276, pp. 1105 – 1106.
- 281 *Ibid*, pp. 1104 – 1105.
- 282 Timothy S. Vernor v. Autodesk, Inc., 555 F.Supp.2d 1164 (2008), pp. 1170 – 1171.
- 283 Vernor v. Autodesk, *supra* note 276, p. 1108.
- 284 *Ibid*, pp. 1110 – 1111.
- 285 *Ibid*, pp. 1111 – 1112.
- 286 Timothy S. Vernor v. Autodesk, Inc., 132 S.Ct. 105 (2011).
- 287 Compare to Marcelo Halpern - Yury Kapgan - Kathy Yu: Vernor v. Autodesk: Software and the First Sale Doctrine under Copyright Law, Intellectual Property and Technology Law Journal, 2011: pp. 7 – 10.; Adam W. Sikich: Buyer Beware: the Threat to the First Sale Doctrine in the Digital Age, Journal of Internet Law, 2011: pp. 20 – 21.; Nimmer on Copyright, *supra* note 9, §8.12[B][1][d][i][III]; Degner, *supra* note 273, pp. 598 – 606.; Donatello, *supra* note 274, pp. 74 – 76.
- 288 USCA §117(c).
- 289 SoftMan Products Co. v. Adobe Sys. Inc., 171 F.Supp.2d 1075 (2001), p. 1087.
- 290 *Ibid*, p. 1085.
- 291 Capitol v. ReDigi, *supra* note 209, p. 655.
- 292 Payment in more instalments – as it is accepted by contract law – is not an obstacle to the classification of the contract as a sale per se.
- 293 USCA §106(3).
- 294 InfoSoc Directive Article 4(1).
- 295 WCT Article 6(1).
- 296 It is worth to take a look at another jurisdiction with regard to this issue. The Supreme Court of Canada decided in July 2012 that the dissemination of copyrighted contents (sound recordings incorporated into video games) via the internet is not communication to the public, but rather only reproduction on the side of the end users. See: Entertainment Software Association v. Society of Composers, Authors and Music Publishers of Canada, 2012 SCC 34, [2012] 2 R.C.S. 231, pp. 242 – 252., paras. [12]-[43]. Such a decision is not surprising, since the case related to the tariffs of SOCAN from the turn of the millennium. Further Canada did sign the WCT on December 22, 1997, but it did not ratify it until May 13, 2014; the ratification came into force on August 13, 2014. Compare to: *Contracting Parties to the WCT*, Status on November 24, 2014 (<http://www.wipo.int/export/sites/www/treaties/en/documents/pdf/wct.pdf>). Irrespectively of the implementation of the WCT by Canada the *Copyright Modernization Act* (the famous Bill C-11: An Act to amend the Copyright Act S.C. 2012, c. 20.) introduced the making available to the public right in June 2012. See: Copyright Act, R.S.C., 1985, c. C-42, Article 2.4(1.1). The Act came into force in November 2012. Practically, there was not any making available to the public right either at a time when the respective tariffs of the SOCAN were prepared, or at the time when the judgment was made by the Supreme Court.
- 297 Compare to note 225.
- 298 Compare to note 245.
- 299 The CJEU consequently – and correctly – deems streaming as making available to the public. Compare to Case C-607/11 – ITV Broadcasting Ltd. and Others v. TVCatchup Ltd., 7 March 2013, ECLI:EU:C:2013:147; Case C-314/12 – UPC Telekabel Wien GmbH v. Constantin Film Verleih GmbH and Others, 27 March 2014, ECLI:EU:C:2014:192. The CJEU ruled in the Svensson case that the use of hyperlinks did not result in public communication (making available to the public). Compare to Case C-466/12 – Nils Svensson and Others v. Retriever Sverige AB, 13 February 2014, ECLI:EU:C:2014:76. The Supreme Court of Canada treated streaming as communication to the public. See: Rogers Communications Inc. v. Society of Composers, Authors and Music Publishers of Canada, 2012 SCC 35, [2012] 2 R.C.S. 283.
- 300 Case C-128/11, *supra* note 176, paras. 48 and 52.
- 301 Vinje – Marsland – Gärtner, *supra* note 176, p. 100.; Emma Linklater: UsedSoft and the Big Bang Theory: is the e-Exhaustion Meteor about to Strike?, *JIPITEC*, 5 (1) 2014: p. 15.
- 302 WCT Article 10, WPPT Article 14, InfoSoc Directive Article 3(1). See further InfoSoc Directive Article 3(2)(c)-(d) that provide for the protection of film producers and broadcasting organizations as well.
- 303 Such an opinion was expressed as early as 2003 by academia. Compare to Eric Tjong Tjin Tai: Exhaustion and online delivery of digital works, *European Intellectual Property Review*, 2003: pp. 208 – 209.
- 304 US Green Paper, *supra* note 170, p. 32.
- 305 US White Paper, *supra* note 170, p. 92. See further: Ficsor, *supra* note 34, pp. 184 – 194.
- 306 Case C-128/11, *supra* note 176, paras. 80-81.
- 307 *Ibid*, para. 44.
- 308 Compare to OLG Stuttgart, *supra* note 235, p. 301.; OLG Hamm, *supra* note 240, paras. 59-74.
- 309 Capitol v. ReDigi, *supra* note 209, p. 649.
- 310 *Ibid*, p. 656. (Emphasize added.)
- 311 "Wer ein Hörbuch erwirbt und dessen Benutzung in erster Linie auf einem mobilen Abspielgerät – MP3-Player oder Smartphone – beabsichtigt, wird diese Möglichkeit in Erwägung ziehen. Bei einem solchen Szenario wäre eine Weitergabe an Dritte ohne weiteren Vervielfältigungsprozess möglich durch Weitergabe des Datenträgers, wobei nebenbei sichergestellt wäre, dass beim Veräußerer keine Kopie verbliebe." See: OLG Hamm, *supra* note 240, para. 74.
- 312 US White Paper, *supra* note 170, p. 93.
- 313 Kawabata, *supra* note 209, pp. 75 – 76.
- 314 Robert H. Rothstein - Emily F. Evitt - Matthew Williams: The First Sale Doctrine in the Digital Age, *Intellectual Property & Technology Law Journal*, 2010: p. 27.; Hartmann, *supra* note 176, p. 985.; Appl - Schmidt, *supra* note 235, pp. 197 – 198.
- 315 Such a notable example is included into Article 40 of the Hungarian Copyright Act (1999. évi LXXVI. törvény a szerzői jogról, hereinafter referred to as: HCA): "Copies reproduced within the framework of free use - with the exception of interlibrary exchange and excluding Subsection (5) of Section 36 - cannot be distributed without the author's authorization." ("A szabad felhasználás keretében többszörözött példányok – a

könyvtárközi kölcsönzés és a 36.§ (5) bekezdésében foglalt eset kivételével – nem terjeszthetők a szerző engedélye nélkül.”) A similar provision is included into dUrHG Article 53(6): “The copies may neither be distributed nor communicated to the public”. (“Die Vervielfältigungsstücke dürfen weder verbreitet noch zu öffentlichen Wiedergaben benutzt werden.”) Likewise, the British Government submitted a draft regulation to the British Parliament in 2014, under which a new Article 28B will be introduced to the British Copyrights, Designs and Patent Act. Paragraph (8) and (9) will sound as follows:

“(8) Copyright in a work is also infringed if an individual, having made a personal copy of the work, transfers the individual’s own copy of the work to another person (otherwise than on a private and temporary basis) and, after that transfer and without the licence of the copyright owner, retains any personal copy.

(9) If copyright is infringed as set out in subsection (8), any retained personal copy is for all purposes subsequently treated as an infringing copy.”

See: Statutory Instruments 2014 No. 2361 - Copyright Rights in Performances - The Copyright and Rights in Performances (Personal Copies for Private Use) Regulations 2014, Article 3.

- 316 “Copyrights can be infringed without a pecuniary motive”. See: *Flava Works, Inc., v. Marques Rondale Gunter, et al.*, 689 F.3d 754 (2012), p. 762.
- 317 US White Paper, supra note 170, p. 93-94.
- 318 US Copyright Office: DMCA Section 104 Report, August 2001: p. xix.
- 319 *Ibid.*, pp. 97 – 101.
- 320 *Ibid.*, p. 98.
- 321 Compare to OLG Stuttgart, supra note 235, p. 302.; *Capitol v. ReDigi*, supra note 209, pp. 650 – 651. See further Hess, supra note 118, pp. 2001 – 2011.
- 322 Peter K. Yu: Anticircumvention and Anti-Anticircumvention, *Denver University Law Review*, 2006: pp. 13 – 77.
- 323 Gregory Capobianco: Rethinking ReDigi: How a Characteristics-Based Test Advances the “Digital First Sale” Doctrine Debate, *Cardozo Law Review*, October 2013: pp. 420 – 422.; Soma - Kugler, supra note 207, pp. 449 – 453.
- 324 *Ibid.*, p. 452.
- 325 Capobianco, supra note 323, p. 422. According to another example IBM applied for a patent to a so-called “Aging File System”, under which “digital data stored on the aging file systems ages appropriately as would normal paper or photographs without the need for an external application.” See: Hess, supra note 118, p. 2006.
- 326 Dennis S. Karjala: “Copying” and “Piracy” in the Digital Age, *Washburn Law Journal*, 2013: p. 255.
- 327 Case C-337/95 - *Parfums Christian Dior SA and Parfums Christian Dior BV v. Evora BV* [1997] I-ECR, pp. 6034-6055.
- 328 Spedicato, supra note 176, p. 56. (Emphasize added.)
- 329 *Ibid.*, pp. 56 – 57.
- 330 Soma - Kugler, supra note 209, pp. 445 – 449.
- 331 *Sony v. Universal*, supra note 119, pp. 417 – 418.
- 332 *RIAA v. Diamond*, supra note 226, pp. 1074 – 1075., 1079.; *Cartoon Network v. CSC Holdings*, supra note 227, pp. 130 – 133.
- 333 Reproduction on the hard drive of the computer is still impossible due to the constant control carried out by the Media Manager software.
- 334 TRIPS Article 10; WCT Article 4; and see further Software Directive Article 1(1).
- 335 See especially the limitations and exceptions related to software, including decompilation. Compare to Software Directive, Article 5-6.
- 336 See for example the German (dUrHG Article 69a-69g), the Austrian (Bundesgesetz über das Urheberrecht an Werken der Literatur und der Kunst und über verwandte Schutzrechte [Urheberrechtsgesetz], BGBl. Nr. 111/1936, Article 40a-40e), or the Hungarian copyright law (HCA Article 58-60).
- 337 Compare to TRIPS Article 10: “[c]omputer programs, whether in source or object code (...)”; WCT Art 4: “[c]omputer programs are protected as literary works (...) whatever may be the mode or form of their expression”. See further Agreed Statement to Article 4 of the WCT: “[t]he scope of protection for computer programs under Article 4 of this Treaty, read with Article 2, is consistent with Article 2 of the Berne Convention and on a par with the relevant provisions of the TRIPS Agreement.”
- 338 Case C-128/11, supra note 176, para. 61.
- 339 Compare to Software Directive Article 5(1).
- 340 Case C-128/11, supra note 176, para. 61.
- 341 “The court ‘purposively’ construed the law to arrive at this outcome.” See: Schulze, supra note 176, p. 11.
- 342 “The [WIPO] treaties do not prescribe any concrete way in which the distribution right must be implemented; they only require that the authors, performers, and phonogram producers can authorize or prohibit the describe acts of distribution. Accordingly, 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.” See: von Lewinski, supra note 12, p. 452., para. 17.61.
- 343 Ficsor, supra note 148, pp. 40 – 41.
- 344 InfoSoc Directive Recital 15.
- 345 InfoSoc Directive Recital 50. See further: Article 1(2)(a).
- 346 InfoSoc Directive Recital 20.
- 347 Ruffler argues the opposite way: „in the correct view, however, it does not follow from this recital (these recitals) that rights granted permanently in software are not subject to exhaustion where the right is granted by non-physical transfer. (...) The InfoSoc Directive leaves the provision of the Software Directive expressly intact and does not affect them in any way (...). Apart from that, the European legislator had other cases in mind in Recital 29 than the online transfer of software for permanent use against payment of a consideration, as its origin in the Database Directive shows. The reference to services in particular and in general as well as to online services and the link to the right of reproduction and the granting of access show that the intention was to exclude the principle of exhaustion only in respect of on-demand services, that is, for online services where the user pays for each use; where he can download a piece of music or a film from the internet to listen to or watch for a fee or may search a legal database against payment.” See: Ruffler, supra note 57, p. 379.
- 348 Conversely, Linklater criticized the decision under the principle of equal treatment. See: Linklater, supra note 301, p. 18.
- 349 Rothstein - Evitt - Williams, supra note 314, p. 26.
- 350 *ESA v. SOCAN*, supra note 296, p. 239., para. [5].
- 351 *Ibid.*, p. 240., para. [7].
- 352 *Ibid.*, p. 241., para. [9].
- 353 Compare to Linklater, supra note 301, p. 16.
- 354 Case C-355/12 - *Nintendo Co. Ltd and Others v. PC Box and Others*, 23 January 2014, ECLI:EU:C:2014:25, paras. 21-23.
- 355 *Ibid.*, para. 23.
- 356 Recital 11 of the same directive similarly states that “For the avoidance of doubt, it has to be made clear that only

- the expression of a computer program is protected and that ideas and principles which underlie any element of a program, including those which underlie its interfaces, are not protected by copyright under this Directive.”
- 357 “In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.”
- 358 Compare to Pamela Samuelson: Why Copyright Law Excludes Systems and Processes from the Scope of Its Protection, *Texas Law Review*, 2007: pp. 1921 – 1977.
- 359 Case C-393/09 - Bezpečnostní softwarová asociace - Svaz softwarové ochrany v. Ministerstvo kultury, 22 December 2010, *European Court Reports*, 2010: p. I-14004, paras. 40-42. See further: Case C-406/10 - SAS Institute Inc. v. World Programming Ltd, 2 May 2012, ECLI:EU:C:2012:259, paras. 38-39.
- 360 *Navitaire Inc. v. easyJet Airline Company and Others*, [2004] EWHC 1725 (Ch).
- 361 See: SzJSzT 19/13, *Iparjogvédelmi és Szerzői Jogi Szemle*, August 2014: pp. 248 – 257. See further: SzJSzT 27/13, *Iparjogvédelmi és Szerzői Jogi Szemle*, August 2014: pp. 258 – 264.
- 362 Ulla-Maija Mylly: Harmonizing Copyright Rules for Computer Program Interface Protection, *University of Louisville Law Review*, 2010: pp. 877 – 908.; Pamela Samuelson - Thomas Vinje - William Cornish: Does Copyright Protection Under the EU Software Directive Extend to Computer Program Behaviour, Languages and Interfaces?, *European Intellectual Property Review*, February 2012: pp. 158 – 166.; Simonetta Vezzoso: Copyright, Interfaces, and a Possible Atlantic Divide, *JIPITEC*, 2012: pp. 153 – 161.
- 363 *Computer Associates International, Inc., v. Altai, Inc.*, 982 F.2d 693 (1992); *Sega Enterprises Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (1992); *Apple Computer, Inc. vs. Microsoft Corporation*, 35 F.3d 1435 (1994); *Lotus Development Corporation v. Borland International, Inc.*, 516 U.S. 233 (1996).
- 364 *Computer Associates v. Altai*, supra note 362, pp. 714 – 715.
- 365 *Apple v. Microsoft*, supra note 363, p. 1443.
- 366 SzJSzT 19/13, supra note 361, p. 255.
- 367 Directive 2009/24/EC, Article 1(3).
- 368 Directive 96/9/EC, Article 3(1).
- 369 Directive 2006/116/EC, Article 6.
- 370 Case C-5/08 - Infopaq International A/S v. Danske Dagblades Forening, 16 July 2009, ECLI:EU:C:2009:465, para. 37.
- 371 Case C-393/09, supra note 359, p. 14005.
- 372 *Navitaire v. easyJet*, supra note 360, at paras. [97]-[98].
- 373 *Oracle America Inc. v. Google Inc.*, 750 F.3d 1339 (2014), p. 1367.
- 374 Brief of Amici Curiae Intellectual Property Professors in Support of Grant of Petition in case No. 14-410 in the Supreme Court of the United States, *Google Inc. v. Oracle America, Inc.*, pp. 5 – 13.
- 375 *Ibid.*, pp. 13 – 18.
- 376 *Ibid.*, pp. 18 – 24.
- 377 *Ibid.*, p. 2.
- 378 Ruffler, supra note 57, p. 378.
- 379 Péter Mezei: The painter, the one horn cow and ole Hank Wilson's back lot - The future of library digitization in the European Union and Hungary. In: Mira Sundara Rajan (Ed.): *Intellectual Property in Eastern Europe & Commonwealth of Independent States*, LexisNexis, New York, 2014 (manuscript).
- 380 The U.S. Copyright Office noted it in 2001 that the concerns about the scope of first sale doctrine in the digital environment are “particularly acute in the context of potential impact on library operations”. See: DMCA Section 104 Report, supra note 318, pp. 96 – 97.
- 381 The present paper is not soliciting towards the copyright levy free lending of the respective digital files. Unlike the US regime that allows for the free lending by public libraries, the law of the European Union correctly envisages a balanced system, under which Member States might opt for an exclusive lending right or derogate from the exclusivity of that right, “provided that at least authors obtain a remuneration for such lending.” Compare to Directive 2006/115/EC, Article 6(1).
- 382 Matthew Chiarizio: *An American Tragedy: E-books, Licences, and the End of Public Lending Libraries*, *Vanderbilt Law Review*, 2013: p. 633.
- 383 *Ibid.*, pp. 640 – 644.
- 384 Compare to Damien Riehl - Jumi Kassim: Is “Buying” Digital Content Just “Renting” for Life? Contemplating a Digital First-Sale Doctrine, *William Mitchell Law Review*, 2014: pp. 807 – 812.; Stothers, supra note 180, pp. 790 – 791.; Maclean, supra note 176, p. 2.; Verbraecken, supra note 176, pp. 8 – 11.
- 385 Vinje - Marsland - Gärtner, supra note 176, p. 100.; Maclean, supra note 176, p. 2.
- 386 Verbraecken, supra note 176, pp. 8 – 9.
- 387 Joshua Brustein: Spotify Hits 10 Million Paid Users. Now Can It Make Money?, *Bloomberg Businessweek*, May 21, 2014 (<http://www.businessweek.com/articles/2014-05-21/why-spotify-and-the-streaming-music-industry-cant-make-money>).
- 388 Case C-348/13 - BestWater International GmbH v. Michael Mebes and Stefan Potsch, 21 October 2014, ECLI:EU:C:2014:2315.
- 389 A similar conclusion was reached by Spedicato, who stressed that “the background economic assumption forming the basis of the principle of exhaustion is that a right holder who sells a copy of a work receives a remuneration consistent with the specific subject matter of intellectual property protection. Therefore, enabling a right holder to control the further circulation of that copy would go beyond the scope of the exclusive rights (and in particular beyond the scope of the right to distribute the work).” See: Spedicato, supra note 176, pp. 52 – 54.
- 390 *Svensson v. Retriever Sverige*, supra note 299, paras. 26-30. The present paper is not going to criticize the application of the theory of new public by the CJEU in the *Svensson* ruling. The issue is, however, discussed in details by the following authors: Lionel Bently - Estelle Derclaye - Greame B. Dinwoodie - Thomas Dreier - Séverine Dussolier - Christophe Geiger - Jonathan Griffiths - Reto Hilty - P. Bernt Hugenholz - M-C Jansses - Martin Kretschmer - Axel Metzger - Alexander Peukert - Marco Ricolfi - Martin Senftleben - Alain Strowel - Michel Vivant - Raquel Xalabarder: *The Reference to the CJEU in Case C-466/12 Svensson*, *Legal Studies Research Paper Series*, Paper No. 6/2013. (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2220326); Mihály J. Ficsor: *Svensson: honest attempt at establishing due balance concerning the use of hyperlinks - spoiled by the erroneous „new public” theory*, *Copyright See-Saw Blog*, 4 May 2014 (http://www.copyrightseesaw.net/archive/?sw_10_item=63); Jane C. Ginsburg: *Hyperlinking and “making available”*, *European Intellectual Property Review*, 3/2014: pp. 147 – 148.; Association Littéraire et Artistique Internationale: *Report and Opinion on the making available and communication to the public in the internet environment - focus on linking techniques on the Internet*, *European Intellectual Property Review*, 3/2014: pp. 149 – 154.; Pekka Savola: *Blocking Injunctions and Website Operators’ Liability for Copyright Infringement for User-Generated Links*, *European Intellectual Property Review*, 5/2014: pp. 279 – 288.
- 391 It might be noted, however, that the CJEU explicitly referred to this relevant information, but still missed to put any real

- emphasize on that. Compare to Case C-348/13, *supra* note 388, para. 4.
- 392 Opinion of the Advocate General in Case C-419/13 - Art & Allposters International BV, 11 September 2014, ECLI:EU:C:2014:2214, paras. 16-19.
- 393 *Ibid*, paras. 56-61.
- 394 *Ibid*, para. 49.
- 395 See especially: *Ibid*, paras. 73-76.
- 396 Gaubiac, *supra* note 71, p. 10.
- 397 Recital 43 of the Database Directive confirms this statement, when notes that “in the case of on-line transmission, the right to prohibit re-utilization is not exhausted either as regards the database or as regards a material copy of the database or of part thereof made by the addressee of the transmission with the consent of the right holder”.
- 398 „Information society services span a wide range of economic activities which take place on-line; these activities can, in particular, consist of selling goods on-line”. See: Directive 2000/31/EC of the European Parliament and of the Council on certain legal aspects of information society services, in particular electronic commerce in the Internal Market, Recital 18.
- 399 Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax, Art. 24(1).
- 400 *Ibid*, Art. 14(1).
- 401 Case C-479/13 - European Commission v. French Republic, 5 March 2015, ECLI:EU:C:2015:141, para. 35.
- 402 Council Implementing Regulation (EU) No 282/2011 of 15 March 2011 laying down implementing measures for Directive 2006/112/EC on the common system of value added tax, Art. 7(1).
- 403 Case C-479/13, *supra* note 401, para. 36.
- 404 Espantaleon, *supra* note 71, pp. 34 - 35.
- 405 Opinion of the Advocate General to Case C-128/11 - Axel W. Bierbach, administrator of UsedSoft GmbH v. Oracle International Corp., 24 April 2012, ECLI:EU:C:2012:234.
- 406 Andreas Wiebe: The Principle of Exhaustion in European Copyright Law and the Distinction between Digital Goods and Digital Services, *Gewerblicher Rechtsschutz und Urheberrecht International*, 2009: p. 115. See further Hoeren: *supra* note 177, p. 447.; Sosnitzer, *supra* note 269, p. 524.
- 407 European Commission: *Green Paper on Copyright and Related Rights in the Information Society*, COM(95) 382 final, Brussels, 19 July 1995, pp. 47 - 48. See further the Follow-up to the Copyright Green Paper. According to it “as regards exceptions, a large consensus exists that no exhaustion of rights occurs in respect of works and other subject matter exploited online, as this qualifies as a service.” See: *Follow-up to the Green Paper on Copyright and Related Rights in the Information Society of November 20*, 1996, COM (96) 568 final, Chapter 2., para. 4., p. 19. The same flawed reasoning is present in the academia as well: “the online communication is the offer of services”. See: Michael Lehmann: *Digitisation and Copyright Agreements*. In: Irini A. Stamatoudi - Paul L. C. Torremans (Eds.): *Copyright in the New Digital Environment: the Need to Redesign Copyright*, Sweet & Maxwell, London, 2000: p. 202.
- 408 Wiebe, *supra* note 406, p. 115. Sosnitzer similarly stressed that where a right has been transferred it shall be treated as sale rather than a service. See: Sosnitzer, *supra* note 269, pp. 524 - 525.
- 409 Wiebe, *supra* note 406, pp. 115 - 116.
- 410 Spedicato, *supra* note 176, p. 49.
- 411 *Ibid*, pp. 49 - 52.
- 412 *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.ntia.doc.gov/report/2001/report-congress-study-examining-17-usc-sections-109-and-117-pursuant-section-104-digital>).
- 413 *DMCA Section 104 Report - A Report of the Register of Copyrights Pursuant to §104 of the Digital Millennium Copyright Act*, August 2001 (<http://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-1.pdf>).
- 414 NTIA Report, Conclusions. Compare to: Tai, *supra* note 303, p. 209.
- 415 Thomas Dreier: Online and Its Effect on the ‘Goods’ Versus ‘Services’ Distinction, IIC, 2013: pp. 138 - 139.
- 416 Davis, *supra* note 210, p. 370 - 371.
- 417 Tai, *supra* note 303, p. 209.
- 418 Sosnitzer, *supra* note 269, p. 523. See further: Berger, *supra* note 21, p. 200.; Ruffler, *supra* note 57, pp. 378 - 379.
- 419 Kawabata, *supra* note 209, pp. 76 - 77.
- 420 Spedicato, *supra* note 176, p. 33.
- 421 Hartmann, *supra* note 176, p. 985.; Chiarizio, *supra* note 382, footnotes 109-110.
- 422 Riehl - Kassim, *supra* note 384, pp. 805 - 807.
- 423 Soma - Kugler, *supra* note 209, p. 456.
- 424 Alexandra Alter: Amazon Unveils E-Book Subscription Service, With Some Notable Absences, *The New York Times*, July 18, 2014 (<http://www.nytimes.com/2014/07/19/business/media/amazon-introduces-kindle-subscription-service.html>).
- 425 It is not only digital resales that might be in danger due to Kindle Unlimited. It seems so that Amazon’s “all you can eat” model is devastating on the income of self-publishing authors as well. See: David Streitfeld: Amazon Offers All-You-Can-Eat Books. Authors Turn Up Noses, *The New York Times*, December 27, 2014 (<http://www.nytimes.com/2014/12/28/technology/amazon-offers-all-you-can-eat-books-authors-turn-up-noses.html>).
- 426 Orwell’s thoughts are cited by Friedman, *supra* note 25, p. 349.
- 427 Access to culture fits clearly within fundamental rights such as freedom to receive and impart information and the right to education. These rights are expressly codified for example by Article 11 and 14 of the Charter of Fundamental Rights of the European Union.
- 428 Schulze, *supra* note 176, p. 13.; Tobin, *supra* note 272, pp. 178 - 179.
- 429 Natali Helberger - Annelies Huygen - Nico van Eijk: Ups and Downs - Economic and cultural effects of file sharing on music, film and games, Culture and Science, Economic Affairs and Justice, February 2009; Amsterdam Law School Research Paper No. 2012-33; Institute for Information Law Research Paper No. 2012-27., p. 19.
- 430 Compare to Ruffler, *supra* note 57, p. 381.; Hoeren, *supra* note 177, p. 448.; Appl - Schmidt, *supra* note 235, p. 197.; Sosnitzer, *supra* note 269, pp. 524 - 525.; Tai, *supra* note 303, pp. 209 - 210.
- 431 Helberger - Huygen - van Eijk, *supra* note 429, pp. 16 - 24.
- 432 Some argue - vice versa - that the lack of any lawful method to resell digital goods will direct users to illegal channels of consumption. See: Soma - Kugler, *supra* note 209, pp. 455 - 460.; Kawabata, *supra* note 209, pp. 76 - 77.
- 433 Hess has argued that forward-and-delete technologies are still uncertain to apply and he has advocated for the introduction of degradation (“aging”) systems. See: Hess, *supra* note 118, pp. 2006 - 2011.
- 434 At the moment, for example, ReDigi only allows for the migration of iTunes tracks.
- 435 Consequently each copy is a rival of the others. On the concept of “rivalrousness” see Capobianco, *supra* note 323, pp. 409 - 412., 420 - 422.

- 436 Berger, *supra* note 21, pp. 201 – 202.
- 437 Compare to note 57.
- 438 Compare to note 247.
- 439 Compare to Digital Era Copyright Enhancement Act, H.R. 3048, 105th Congress (1997), Section 3. (<http://thomas.loc.gov/cgi-bin/query/z?c105:H.R.3048>); Consumer, Schools, and Libraries Digital Rights Management Awareness Act of 2003, S.1621, 108th Congress (2003), Section 6. (<http://www.gpo.gov/fdsys/pkg/BILLS-108s1621is/pdf/BILLS-108s1621is.pdf>); BALANCE Act, H.R. 1066, 108th Cong. (2003), Section 4 (<http://thomas.loc.gov/cgi-bin/query/z?c108:H.R.1066>).
- 440 Pallante, *supra* note 173, p. 332.
- 441 James Parker: *Comparing Strategies of the 2d Punic War: Rome's Strategic Victory Over the Tactical/Operational Genius, Hannibal Barca*, USAWC Strategy Research Project, U.S. Army War College, Carlisle Barracks, 2001: p. 16. (http://www.iwar.org.uk/military/resources/hannibal/Parker_J_P_01.pdf)
- 442 Karjala, *supra* note 326, p. 255.

Open Data and Earth Observations

The Case of Opening Up Access to and Use of Earth Observation Data Through the Global Earth Observation System of Systems

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Abstract: Earth observations (EO) represent a growing and valuable resource for many scientific, research and practical applications carried out by users around the world. Access to EO data for some applications or activities, like climate change research or emergency response activities, becomes indispensable for their success. However, often EO data or products made of them are (or are claimed to be) subject to intellectual property law protection and are licensed under specific conditions regarding access and use. Restrictive conditions on data use can be prohibitive for further work with the data. Global Earth Observation System of Systems (GEOSS) is an initiative led by the Group on Earth Observations (GEO) with the aim to provide coordinated, comprehensive, and sustained EO and information for making informed decisions in various areas beneficial to societies, their functioning and development. It seeks to share data with users world-wide with the fewest possible restrictions on their use by implementing GEOSS Data Sharing Principles adopted by GEO. The Principles proclaim full and open exchange of data shared within GEOSS, while recognising relevant international instruments and national policies and legislation through which restrictions on the use

of data may be imposed. The paper focuses on the issue of the legal interoperability of data that are shared with varying restrictions on use with the aim to explore the options of making data interoperable. The main question it addresses is whether the public domain or its equivalents represent the best mechanism to ensure legal interoperability of data. To this end, the paper analyses legal protection regimes and their norms applicable to EO data. Based on the findings, it highlights the existing public law statutory, regulatory, and policy approaches, as well as private law instruments, such as waivers, licenses and contracts, that may be used to place the datasets in the public domain, or otherwise make them publicly available for use and re-use without restrictions. It uses GEOSS and the particular characteristics of it as a system to identify the ways to reconcile the vast possibilities it provides through sharing of data from various sources and jurisdictions on the one hand, and the restrictions on the use of the shared resources on the other. On a more general level the paper seeks to draw attention to the obstacles and potential regulatory solutions for sharing factual or research data for the purposes that go beyond research and education.

Keywords: Open Data; GEOSS; Data Sharing; Creative Commons; Open Data Commons;

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Recommended citation: Catherine Doldirina, Open Data and Earth Observations: The Case of Opening Up Access to and Use of Earth Observation Data Through the Global Earth Observation System of Systems, 6 (2015) JIPITEC 73, para 1.

A. Introduction

- 1 Open data is a trend that a growing number of actors across the globe support, promote and implement. Benefits of its application to Earth observation data are widely promoted and emphasised.¹ It is not always an easy task to adopt and implement an open data strategy with regard to such data. The reasons behind the difficulties include the complexity of the activity as such, of its regulatory framework, as well as multiplicity of various actors involved in generation and use of Earth observation data and information products, and of their interests. For this reason, the discussion within this paper of the open data concept applied to Earth observations necessitates a brief overview of the activities during which Earth observations are made and data are generated, as well as of the range of applications or other activities for which these data can be used. One of the premises of this paper is that the nature of Earth observation data and their usefulness for various purposes are two major factors that can be used for making the case for applying the concept of open data to them.
- 2 Taking into account the specificities of Earth observation data the paper also highlights complex regulatory environment – various legal norms applicable to Earth observation data that impact the ability to access and use them. In addition, the options for ensuring access to Earth observation data – through regulation or licensing – are analysed. The exercise is carried out in the context of the Global Earth Observation System of Systems (GEOSS). GEOSS is an initiative set up by the Group on Earth Observations (GEO) to provide wider access to Earth observation data and information products, preferably on the open and unrestricted basis. It represents an excellent platform for conducting such efforts and assessing their effectiveness and sustainability. Activities within GEO reveal existing practices with regard to data sharing, as well as hurdles to ensuring legal interoperability and hence to genuine open access to and use of the shared data. The international character of GEO and the outreach of its activities are indicative of the complexity of the regulatory environment that affects legal interoperability of the shared data, and needs necessarily to be taken into account when GEOSS Data Sharing Principles are promoted for implementation by GEO members and participating organisations.
- 3 Overview of the legal issues pertinent to data shared through GEOSS, primarily due to their nature or in other words technical characteristics, is indicative of potential similarities within sectors of activities that involve use of geographic or other types of factual data. For this reason it is anticipated that the analysis of the applicable and compatible licences for

sharing data through GEOSS may have implications or at least provide lessons learned to those involved in data sharing in other spheres. To mention a few, the Research Data Alliance (RDA),² European Data Infrastructure (EUDAT) project,³ the European Copernicus programme,⁴ Policy Recommendations for Open Access to Research Data in Europe (RECODE) project,⁵ The European Thematic Network on Legal Aspects of Public Sector Information,⁶ are projects that place legal interoperability as one of the most important aspects of their activities. Most of them are also aware of GEO's efforts in this regard. They also realise the importance of synergy of the separate efforts to promote legal interoperability for the enhanced effectiveness of each of them.

B. Context

I. Earth observation activities and data

- 4 Earth observation data are characterised by certain specificities including their nature, the process of their generation, the players who generate them (in particular their organisational origins: public, private, mixed players), their users and uses to which these data can be applicable.
- 5 Earth observation data are a type of factual data that represent fixated signals reflected from objects on the surface of the Earth, its depths or oceans. They are generated by special satellites. The process of acquiring such data starts when an operator sends a command to the satellite with the coordinates of the location to be observed. Once the satellite sensors acquire the data, it sends them by means of telemetry to a ground station, where the initial processing takes place.⁷ It is only after this that Earth observation data may be made available to users, archived, or further processed.
- 6 Initial processing is required to make raw data usable, and correction, classification and interpretation involve use of computer algorithms⁸ and of some *in situ* data.⁹ For example, exact geographic coordinates are used as a base on which Earth observation data are projected in order to correct them so that they match the exact geographic location of the territory over which Earth observation data are acquired. A sufficient degree of processing – “interpretation of processed data, inputs of data and knowledge from other sources”¹⁰ – transforms Earth observation data into analysed information.¹¹ The way Earth observation data are processed is often determined by the anticipated results or applications for which the processing is done. They are also decisive for the level or degree of processing, because what for some

applications or uses is considered data, for others is information.

- 7 Some applications for which satellite Earth observation data are used require complex analysis and integration of various types of data, often not only from Earth observation satellites, but other sources. For instance, emergency response requires a service that in order to be satisfactory to the customer (an actor carrying rescue operations, etc.) has to combine data from different satellite sensors (optical, RADAR and multispectral) processed to such a degree as to represent a ready-to-use information product (map or interactive map). In addition, this service has to be delivered rapidly and by means available when the terrestrial infrastructure is damaged or not available, for instance by a direct transmission from a telecommunication satellite to a mobile device (phone).¹² Other applications require delivery of other information products and services.¹³
- 8 Even this brief snapshot of technical characteristics of Earth observation data is indicative of potential hurdles of applicability of copyright to this subject-matter. They are discussed in detail later on in this article. This difficulty is also reflected in the available normative definitions of Earth observation data in international and national law.
- 9 On the international law level there is no universal convention or treaty that defines Earth observation data. The only relevant document is Principles Relating to Remote Sensing of the Earth from Outer Space¹⁴ adopted by the United Nations (UN) General Assembly. Its first Principle distinguishes three distinct categories of Earth observation data depending on the degree of processing applied to them: 'primary data', 'processed data' and 'analysed information'. 'Primary data' are raw data transmitted by satellites to the ground stations.
- 10 On the national law level approaches to defining Earth observation data differ. The United States (US) and Canada¹⁵ follow an approach similar to the UN Remote Sensing Principles. The US Land Remote Sensing Policy Act¹⁶ defines Earth observation as an activity in the following way: "collection of data which can be processed into imagery of surface features of the Earth". Read together with the definition of the raw or unenhanced (Earth observation) data – "land remote sensing signals or imagery products that are unprocessed or subject only to data pre-processing" – it is clear that the US legislation makes a clear distinction between data and information depending on the processing applied. Canadian law also makes a distinction between 'raw data' and 'remote sensing product', based on processing.¹⁷
- 11 Laws in Europe do not generally follow the definitional distinction between raw¹⁸ Earth observation data and information products made from them, as within the UN Remote Sensing Principles, the US and Canada. For example, the German Satellite Data Security Law¹⁹ explicitly negates the importance of the distinction between raw and processed data or information by defining that Earth observation data as signals of satellite sensors and all products derived from them, notwithstanding the level of processing and the mode of their storage or presentation.²⁰ European Space Agency does reference the UN Remote Sensing Principles in its Data Policy, but categorises data based on their availability or accessibility (free and restrained datasets), not processing.²¹
- 12 The differences in approaches to defining Earth observation data²² may have very specific implications on the availability and type of protection applicable to them. This above all is true with regard to application of copyright protection to Earth observation data. No distinction between raw and processed data or information may create difficulties in assessment of fulfilment of copyright protection criteria, since such an approach ignores differences between raw and processed data or information. In its turn, availability of copyright protection can directly affect the legal interoperability of data from various sources, especially when they are generated by actors based in different jurisdictions.
- 13 Differences as to how to treat Earth observation data may also be determined by the type of activity that generates them. Earth observation is pursued both by governments and private companies, and today is becoming a more lucrative business.²³ The purposes or applications for which Earth observation data can be used for are also of different nature, and can also be commercial or non-commercial. For instance, the humanitarian nature of using satellite Earth observation data under the Charter on Space and Major Disasters²⁴ may need to be accommodated differently than the applications regarding maritime surveillance services.²⁵ Due to the fact that many Earth observation satellites are quite unique, either due to their sensors or position, data they generate find users globally. As a result, the same data are used in different jurisdictions, where distinct laws, regulations and policies are in place. Better and less restrictive access to and use of Earth observation data can be ensured when various national policies and regulations are streamlined in accordance with the international trends and practices of open data.

II. Legal interoperability

- 14 The multiplicity of actors who generate Earth observation data and information products often

leads to different conditions or restrictions on their subsequent sharing and use. By analogy to the issues pertaining to technical interoperability that arise when data are generated and stored using different standards, procedures or formats, varying legal conditions and restrictions of access to and use of data reduce their legal interoperability. The GEO Data Sharing Working Group who among other issues addresses legal interoperability, proposed the following definition:

“Legal interoperability among multiple datasets from different sources occurs when:

- use conditions are clearly and readily determinable for each of the datasets,
- the legal use conditions imposed on each dataset allow creation and use of combined or derivative products, and
- users may legally access and use each dataset without seeking authorization from data creators on a case-by-case basis, assuming that the accumulated conditions of use for each and all of the datasets are met.”²⁶

- 15 Legal interoperability also implies online capability to search or track licenses and their compatibility with legal conditions of access to and use of data from various sources. When data from multiple sources are combined or used otherwise the resulting dataset incorporates the accumulated restrictions imposed by each and every source. Therefore, any restrictions need to be tracked. The fewest restrictions contained in original data results in the fewest restrictions in information products made with or from them. Full legal interoperability is achieved when data are provided without any restrictions on access and use, by analogy with copyright protection regime – placed in the public domain.
- 16 As was highlighted earlier and is analysed later in the paper, the complexity of the regulatory framework applicable to Earth observation data may negatively impact their legal interoperability. Specific challenges and ways to overcome them are discussed in the context of GEO and GEOSS.

C. GEO and GEOSS

I. Features of the initiative

- 17 GEO is a voluntary partnership of states and organisations, currently with 185 participants.²⁷ It was set up over ten years ago due to the realisation of the necessity of international cooperation to fully exploit the potential of Earth observation data for

informed decision-making. The primary focus of GEO work is the development and operations of GEOSS. In 2015 GEO will complete the milestones of its first 10-Year Implementation Plan.²⁸ The implementation plan for the next decade of GEO activities is currently being developed and will be submitted for the approval by the GEO Plenary that as its highest governing body by consensus will decide whether to adopt it.

- 18 GEOSS is the most ambitious initiative to set up a platform to provide gateway and access to widest possible amount of Earth observation data initiated on the international level. GEOSS is designed to become a global network connecting data, information and other geographically referenced content from multiple providers – “an extraordinary range of information”. This system of systems aims at offering decision-support tools to a wide variety of users²⁹ by linking together national and international Earth observation satellites and systems, as well as other sources of information about the Earth. It is set up to promote common technical standards to achieve interoperability and coherence of data generated from different sources.
- 19 Primary goal of GEOSS is to enable “open data exchange across different legal traditions and jurisdictions and reducing institutional, legal, and cultural impediments to data sharing.”³⁰ Use of “coordinated, comprehensive and sustained Earth observations and information”³¹ accessible through GEOSS is concentrated on nine societal benefit areas – fields of societal activities for which use of Earth observation data can be useful – disasters, health, energy, climate, water, weather, ecosystems, agriculture and biodiversity. The aim of such use is to promote and enable decision-making and execution for the benefit of mankind. For the achievement of this goal GEO adopted two data sharing mechanisms – GEOSS Data Sharing Principles,³² and GEOSS Data Collection of Open Resources for Everyone (Data-CORE).³³ The success of reaching common, or in other words communal or societal good of making people information rich central to goals that GEOSS pursues depends on widest implementation of its Data Sharing Principles.³⁴

II. GEOSS Data Sharing Principles and GEOSS Data-CORE

- 20 The three overarching principles³⁵ that govern exchange and use of data within GEOSS were agreed upon by the GEO Plenary in 2005. The Implementation Guidelines for the GEOSS Principles³⁶ provide the interpretation of the principles in the light of the GEOSS vision and goals, and should be followed when relationships with GEO are set up and data contributed to GEOSS. Adherence to the non-

binding GEOSS Data Sharing Principles by members and participating organisations ensures their coherent implementation. According to the first principle, data, metadata, and products available through GEOSS should be shared fully and openly. The second principle states that such data should be made accessible with “minimum time delay and at minimum cost”. Third, last principle encourages provision of data for research and education purposes “free of charge or at no more than cost of reproduction”.

- 21 The principle of full and open access to data shared through GEOSS emphasises the necessity to grant freedom to re-use and re-disseminate data to effectively enable their use³⁷ and therefore better achieve benefits from their use. The possibility for GEO participants to impose restrictions on these activities, based on obligations imposed by relevant international instruments, national policies or legislation, should be kept at the minimum. This principle is applicable to data independent from the source of their generation: government, private³⁸ or mixed.³⁹ The logic behind this guideline is that the principle of full and open access should be applicable to use of all shared Earth observation data because it makes their use more beneficial for all stakeholders and thereby contributes to the achievement of the aims and goals GEO pursues. The drafting history shows that the principle of full and open access to data shared through GEOSS is based on the premise that the shared data and information represent a public good.⁴⁰ This choice is made because GEOSS helps to disseminate Earth observation data as widely as possible and thereby to maximise societal benefits from their use.⁴¹
- 22 Since the adoption of GEOSS Data Sharing Principles the situation with regard to data sharing has improved considerably, both within GEO and across the Earth observation and environmental data landscape. In accord with the emerging trend of open data the 2010 Beijing Ministerial Declaration announced creation of the GEOSS Data-CORE – a pool of resources that consists of data shared by the GEO community without any restrictions on use: “full, open and unrestricted access at no more than the cost of reproduction and distribution”. The so-called conditions of use – registration and attribution – can be imposed on GEOSS Data-CORE users, but they are not seen by the GEO community as restricting use.⁴² Currently this pool of resources is being made more extensive due to the willingness of many GEO members to contribute their data under such conditions.
- 23 Today the consensus regarding the benefits that full and open exchange of data can bring is strong.⁴³ The open data trend in particular affected policies and regulations regarding re-use of public sector information: establishment of the

full and open access principle as a default basis for sharing government-produced and -held data and information resulted in a significant increase of their accessibility and usability without any restrictions. Examples include amended⁴⁴ or newly adopted⁴⁵ public sector information legislation in Europe, open data policies in countries like Argentina,⁴⁶ Finland,⁴⁷ Japan,⁴⁸ New Zealand,⁴⁹ the US⁵⁰ and many others, as well as the G8 Open Data Charter.⁵¹ GEO has played a part in bringing about these changes in policy and attitude,⁵² and should continue to do so. Taking into account new policy and legislative choices the GEO Data Sharing Working Group decided to introduce changes to the current GEOSS Data Sharing Principles in order to reinforce their forward-looking nature. The main goal is to elevate the status of GEOSS Data-CORE that at the moment is not part of the GEOSS Data Sharing Principles, and make it the default data sharing mechanism for GEOSS to further promote unrestricted sharing of Earth observation data that best ensures their legal interoperability.

D. Challenges to effective sharing of data and information through GEOSS Complex regulatory framework

- 24 The challenges of full implementation of GEOSS Data Sharing Principles across the GEO community have several dimensions. The first such dimension is “institutional”. GEO as a voluntary organisation cannot impose or enforce their implementation, as it has to rely on the will and efforts undertaken by its members who provide the data. For this reason members can share data also with restrictions on use, which reduces interoperability but increases the amount of available data. It needs to be emphasised, however, that the progress GEO made with regard to making GEOSS operational and offering a wide range of fully and openly accessible and usable data and information resources is indicative of the commitment on the part of many within the GEO community to share their data without restrictions, or to keep those minimal.
- 25 The second dimension of challenges in implementing GEOSS Data Sharing Principles is related to the terminology they use. Terms like “full”, “open”, provided with “minimum time delay” and “at minimum cost”⁵³ are not *verbatim* common to all GEO members and participating organisations.⁵⁴ For instance, many jurisdictions and organisations use “full and open” or other terms as umbrella concepts that in fact encompass conditions of access and use, as well as rules regarding cost of access. The level of detail and specificity of the definitions varies making some of them clearer and more precise than others. Provision of data with minimum time delay also

seems to be an uncertain notion since most of the regulations and policies adopted by GEO members do not include any reference to the timeframe of providing or making available data they produce of acquire.

- 26 The third dimension is that of scope. Often GEOSS' "data, metadata and products" are a wider concept than what is defined as "open data" in jurisdictions of GEO members. The former, even though in practice limited to Earth observation or more generally geographic data, may include data from many various sources. The latter – open data – is most often limited to a specific type, like public or research data, or other types as per relevant policy or legislative regulation. In most cases private data are explicitly excluded from any open data policies or regulations. Differences in scope may have quite substantial implications as to what data can be fully and openly shared through GEOSS and as a result limit its resourcefulness, in particular reduced availability of GEOSS Data-CORE resources. Absence of uniformity in this regard may hinder interdisciplinary research and development of applications, since legal interoperability of shared data may be reduced.
- 27 The fourth dimension relates to different legal protection regimes applicable to the same data types, as well as differences between national sources of law that have the same subject-matter. For example, public data are often subject to public sector information legislation, as well as copyright law protection. However, each of these legal regimes in different jurisdictions may have varying provisions regarding, for example, characteristics of the protected subject-matter or specificities (scope, conditions, duration, etc.) of protection granted. This dimension potentially has the most serious impact on legal interoperability of data, not only shared through GEOSS, but any data shared across jurisdictions. This is illustrated on the example of copyright and public sector information regulatory regimes in the sections below.

I. Copyright: international minimum standards and jurisdictional differences

- 28 The key characteristics of copyright protection regime include the following: its subject-matter is works of authorship;⁵⁵ it is available without registration formalities; it consists of exclusive economic rights enforceable for a limited time, limitations to them, and moral rights. It should be noted that because of the fact that copyright protects intangible – in other words artificially created – property, it cannot go beyond boundaries of the law that codifies it. Characteristic features of copyrightable subject-matter and the scope of protection result in differences in the enforcement and governance of copyright (and intellectual property in general) and of tangible property.⁵⁶ The matter is further complicated by the fact that the exact scope of copyright protection is determined by national copyright laws that are not identical to each other.
- 29 Even the very subject-matter of copyright protection is an instance of different approaches. According to Article 2 of the Berne Convention⁵⁷ copyright protection encompasses "literary and artistic works", examples of which it codifies. By analogy, national legal instruments of copyright protection⁵⁸ contain open lists of protected subject-matter not to exclude potentially protectable works, or to include certain works, particularly those not listed in the Berne Convention,⁵⁹ into the scope of statutory protection. Focus and policy priorities in a given jurisdiction may result in refusal to protect subject-matter that in other jurisdictions is considered copyrightable.
- 30 The fixation criterion for copyright protection is another example, since the Berne Convention in Article 2(2) leaves indispensability of the requirement of material fixation of the work to the decision by nation states that of course end up being different. The US Copyright Act requires that that a work is created when it is "fixed in a copy ... for the first time";⁶⁰ while the German Copyright Law declares exploitation rights as applicable to work's material copies,⁶¹ and the Canadian Copyright Act requires fixation of only specific works, like phonograms.⁶²
- 31 The most important, primary criterion for copyright protection in accordance with the Berne Convention is that a protectable work shall be an intellectual creation. As in case with other mentioned criteria and elements of scope of copyright protection, interpretation of creativity under national laws or jurisprudence differs, whereby in the civil law system creativity reflects personality of the author,⁶³ his personal input in making a work, while in the common law countries it is rather the investment of "skill, judgment and labour" or "selection, judgment and experience."⁶⁴ However, this distinction is not very vivid, and many common law jurisdictions have recently started supporting less labour- and more personal creativity-oriented approach to interpretation of this criterion.⁶⁵ Also, the lower thresholds of creativity are not explicitly determined and differ not only across national laws, but sometimes even in individual court decisions within the same jurisdiction.
- 32 In addition, the important field of exceptions to the exclusive rights of authors⁶⁶ that insure access to existing works, sustain the public domain and facilitate exchange of ideas and creation of new

works, is also majorly left to the legislative choices made by individual states. As a result, for example Europe introduced a closed list of exceptions that users are allowed to perform with regard to work without prior permission of the author.⁶⁷ At the same time, in the US, in addition to individually specified exceptions, widely uses the so called fair-use doctrine⁶⁸ that is applied on the case by case basis and can exempt many more uses than those codified in the European legislation. The implication of the resulting differences is that two copyrightable works created in different jurisdictions may be subject to different exceptions, and that a user may not be able to apply same actions (quote, sample, etc.) to both of them. As a result, creation of other, independent works may be jeopardised or at the very least made more burdensome since active clearance of right is required when exceptions cannot be applied. This obviously can reduce legal interoperability of shared data and information.

- 33 Another significant difference is the term of copyright protection that can be life of the author and additional fifty years if the minimal threshold of the Berne Convention is followed, or seventy years in Europe⁶⁹ and the US.⁷⁰ Differences in the duration of the term of protection, as well as of the system as to how to count it, can also lead to various status of protected subject-matter created at the same time but in different jurisdictions. However, for data shared through GEOSS that are eligible for copyright protection this most likely will not become problematic in the next thirty or so years since most of satellite Earth observation data and information products weren't generated long enough to have available protection expired.
- 34 Highlighted discrepancies in copyright protection across jurisdictions, in particular those related to protected subject-matter and criteria for protection may indeed pose significant challenges for sharing data through GEOSS, in the first place because shared data and information products with the same level of processing and other matching technical features will be protected by copyright in some jurisdictions but not in others. This situation translates into potentially different restrictions applied to the shared data and as a result inability to integrate or otherwise work with data from multiple sources, which is exactly what GEO would like to avoid since the goal of sharing data to provide or produce useful information for decision-making purposes in various societal benefit areas.

II. Copyright: not always the best fit for Earth observation data

- 35 However many differences there are among copyright protection regulations around the

world, the application of this legal regime to Earth observation data is not a matter of fact and needs careful assessment. The applicability problem is primarily linked to technical characteristics of Earth observation data, most important of which were discussed in section II. They preclude at least some types of Earth observation data from fulfilling criteria for copyright protection.

- 36 One of the *de minimis* rules established by international copyright law is that factual data are excluded from the protection scope.⁷¹ The regulatory distinction in some jurisdictions⁷² between raw and other types of Earth observation data may be interpreted as an implicit recognition of this obligation not to protect data. It can be argued that even in jurisdictions where there is no such distinction made, like in Germany, the (non)copyrightability of raw and processed Earth observation data will not be affected. Such a premise is based on the fact that the German Satellite Data Security Law⁷³ states that enforcement of other laws potentially applicable to EO data should not be affected by its provisions. The German Copyright Act,⁷⁴ in its turn, defines a copyrighted work as “author’s personal intellectual creation”⁷⁵ and thereby rules out possibility to protect raw Earth observation data by virtue of copyright.
- 37 It is hard to deny, however, that copyright is applicable to at least some types of Earth observation data, partly because the lists of protected subject matter practically in any jurisdiction include maps,⁷⁶ which are one of the information products made by processing Earth observation data. It is therefore sufficient degree of creative processing that makes certain types of Earth observation data (or rather information products) eligible for copyright protection.⁷⁷ Most likely any products that result from processing that requires “interpretation of processed data, inputs of data and knowledge from other sources”⁷⁸ will qualify for copyright protection. The tricky part of analysis is the answer to the question as to when, with what degree of processing data are transformed into protectable work. The difficulty lies in the fact that various applications necessitate different degrees of processing, but each of them transforms mere data into information⁷⁹ for the purposes of that application or further use. However, most certainly raw and initially processed Earth observation data hardly fulfil the criterion of creativity indispensable for copyright protection.
- 38 The same concerns databases in form of which Earth observation data and information are commonly stored: their eligibility for protection is conditioned by creativity of their authors. Although most of the spatial data databases, including those arranging EO data are set up following more utilitarian rather than creative principles, the copyright protection cannot automatically be denied.

39 The implications for GEOSS that issue of copyrightability of Earth observation data brings is primarily linked to differences in interpreting the “sufficient degree of creativity” in various jurisdictions. A user will most probably be affected when he integrates or otherwise works with data from multiples sources. Having to work with two digital elevation models one of which is claimed to be a copyrighted work, while the other is explicitly stated to lack the sufficient degree of processing is indeed difficult, since such a situation creates confusion as to what in fact can be or is protected by copyright and what is not.

III. Public sector information law

40 Governments are quite substantially involved in pursuing Earth observation activities and in generation of Earth observation data, and in fact produce or fund production of most of Earth observation data. This practice results in applicability to such data of regulations governing access to and use of data and information⁸⁰ that are produced by governments or by private entities on their behalf.⁸¹ The rationale for regulations that are applicable to government-produced or -held data and information is promotion and securing access to them and their use, while their basis is normally found in securing the right to freedom of opinion and expression, as well as in adhering to principles of democratic governance. For this reason, the fundamental principle of such regulations in many jurisdictions is free, full and open access to data and information. The number of countries establishing and enforcing this principle is growing and has transformed in the so called open data trend that encourages open access to and unrestricted use of as much government data and information as possible.⁸²

41 Norms applicable to access to and use of government-produced or -held data and information have found less harmonisation on the international level than copyright protection discussed in the previous section. Even where appropriate international treaties are in place, they are either sectorial in application or not universally accepted. This is the case, for example, with the Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters.⁸³

42 Sufficiently independent development of this regulatory field within separate national jurisdictions leads to differences in the content of their provisions, even more so than in the case of copyright protection laws outlined above. One of the first noticeable differences to highlight is use of different terminology by statutes in different jurisdictions: such concepts as information,⁸⁴ documents⁸⁵ or

records⁸⁶ are used. Their definitions also do not always coincide; hence Earth observation data may be treated differently. One of the more important instances that may have significant implications on subsequent handling of government-produced or -held data and information is their ownership. Some governments or their agencies own data and information they produce or hold as custodians,⁸⁷ others – as proper owners.⁸⁸ Consequently, governments and their agencies have different rights with regard to these data and information: they are either obligated to release them,⁸⁹ or have the discretion of making decisions as to what data and according to which conditions are made available. Some governments may decide to put their data and information into the public domain, *i.e.* lift any restrictions on reuse of released data and information. This is the case, for instance, in the US, notably not only on the level of the general Freedom of Information Act, but specifically applicable to Earth observation data through National Strategy for Earth Observations.⁹⁰

43 Probably the most important instance of differing provisions within the regulations governing access to and use of government-produced or -held data and information is those dealing with restrictions regarding access to certain categories of otherwise freely available data and information.⁹¹ Often even the principles on which imposition of these restrictive exemptions or exceptions to full and open access to data is based, can be different, as for example absolute and discretionary exemptions in the Freedom of Information Acts of the UK⁹² and Australia,⁹³ or nine broad categories in the US Act.⁹⁴ As a rule, exemptions apply when, for example, information is accessible by other means than through a government body; when information should be published in future; when national security and defence, or international relations may be harmed by making information available; or when information is protected as personal information.⁹⁵ Some of the exemptions, notably potential infringement of intellectual property rights,⁹⁶ directly influence access to and use of Earth observation data and information. Furthermore, access to certain geological and geophysical information and data, which by definition include Earth observation data and information, may also be restricted.⁹⁷

44 The last but not least is the issue of cost recovery. Even though in itself it does not affect the accessibility and usability of government data that are made available, high costs of access may be prohibitive, if users are unable or unwilling to pay them. In some jurisdictions cost recovery is allowed, as for example in many European countries, while in others, like in the US, it is not. Whatever the rationale for making

one or the other choice, it affects in the first place the amount of accessible data used by the public.

- 45 All highlighted differences inevitably impact usability of Earth observation data when falling under the provisions of relevant regulations that are shared through GEOSS, and can jeopardise successful implementation of GEOSS Data Sharing Principles or sharing of data as part of the GEOSS Data-CORE. However, despite the differences on the regulatory level, there are ways to ensure that both government-produced and -held data and information, and information eligible for copyright protection (independent of the public or private nature of its creator) can be effectively shared through GEOSS and utilised by its users for various purposes. The most common way is to use licences that allow use of data without restrictions. The next section provides an overview of licences that are the best fit for the purpose of sharing data through GEOSS without restrictions, and thereby contribute to good practices of adhering to the GEOSS Data-CORE conditions and the GEOSS Data Sharing Principles.

E. Licences as a mechanism to freely share Earth observation data

- 46 The option of placing Earth observation data (at least government-produced or -held) into public domain, in particular when they are eligible for copyright protection, was invoked as a possibility in the paper. In fact, it would be the most effective measure for some categories of Earth observation data, and a welcome step in the development of relevant national legislation or even international treaties. Some GEO members do introduce policy or regulatory measures of such nature with regard to data they can or share through GEOSS. Examples include unrestricted and free of charge access and use of Earth observation data from the US Landsat satellites⁹⁸ or China Brazil Earth Resources Satellites.⁹⁹ However, introduction of such a regulatory change, even for a certain subset or type of data, may not be easy to achieve. In addition, it will not apply, for example, to privately generated Earth observation data. Therefore, licences seem to be a much more practical solution that can be applied when sharing any type of Earth observation data through GEOSS, as the decision to do so is left with their author, rightholder or owner. Licences are based upon existing statutory rights and are applied automatically, without dependence on a contractual agreement between the rights holder and individual user.
- 47 The mechanism that enables sharing data with virtually no restrictions is a waiver. It is an express declaration of the author or rightholder that no rights¹⁰⁰ comprising copyright protection are retained. This is a way for the author to proactively place a work, the term of protection of which has not yet expired, into the public domain and enable full usability of the shared data. Such waiver is the aim to achieve with regard to the Earth observation data shared through GEOSS, because this will level proprietary data with other data made available without restrictions. Using this type of waiver ensures full interoperability with no restrictions.
- 48 In case it is impossible or impractical for the author to waive all possible rights, a licence that retains some of them can be used. In order to avoid the necessity of drawing up licensing clauses on one's own, standard licences (as well as standard waivers) can be used. The most widely used are the licences offered by Creative Commons¹⁰¹, but others like Open Data Commons,¹⁰² and the UK Open Government Licence¹⁰³ for government data and information also exist and can be effectively used. The licence closest to a waiver, taking the example of Creative Commons CC-BY licence,¹⁰⁴ is the one that requires only attribution, while any use of the licensed work is permitted. This is essentially the only licence that meets the criteria of sharing Earth observation data as part of the GEOSS Data-CORE, and hence the one that ensures their full legal interoperability.
- 49 If attribution is not the only "return" that data author or rightholder wishes to receive in exchange to sharing them, the option of, in the terminology of Creative Commons,¹⁰⁵ Attribution-ShareAlike, Attribution-NonCommercial licences or a combination of the two can be opted for. By putting obligations to share the created derivative works under the same conditions as the originally licensed works, or to use licensed works only for non-commercial purposes, the licence narrows down the scope of use of the work, but does not affect the actual uses (dissemination, adaptation, translation, etc.) that can be applied to it. The ShareAlike clause, in addition, restricts freedom of the author of derivative work to use his own copyright as he sees fit, since it is independent from the copyright in the original work.¹⁰⁶ These licences are compatible with the GEOSS Data Sharing Principles.
- 50 The common use licence least desirable to be applied to Earth observation data shared through GEOSS is the one prohibiting creation of derivative works. Such restriction undermines the very purpose of operational GEOSS and the achievements of the benefits from the use of data envisaged by GEO. In addition, such a restriction, albeit compatible with copyright law norms, can significantly undermine creation of new information products that may be useful for various applications or purposes. For this reason use of such a restriction within licences for data shared through GEOSS should be avoided. Also, the more different licences are used to share data, the more reduced is their legal interoperability when

more than two data (sets) or information products are combined or used otherwise.

51 The limiting feature of a licence is that it is based on statutory copyright law (or for instance in the European Union based on the *sui generis* database right) and therefore cannot be used for data and information that are not eligible for copyright protection. However, in such cases to ensure the ability to use shared data, contracts may be opted for, in particular because their enforcement is dependent not on the statute they may invoke, but on the agreement of the parties.¹⁰⁷ Contracts, however, by their nature only bind the agreeing parties, and do not create an obligation of all third parties against the author or rightholder as the licences do. Suitable contracts can draw upon the clauses of licences that are compatible with GEOSS Data-CORE or GEOSS Data Sharing Principles described above. If adhered to, such practice will also contribute to ensuring maximum legal interoperability possible. By the same token, whenever data author or rightholder cannot use a standard licence, customized licence or waiver can be formulated using standard clauses of the widely used standard common use licences like Creative Commons.

52 In addition to the content or type of licences compatible with GEOSS Data-CORE or GEOSS Data Sharing Principles, the specificities of GEO as an organisation need to be taken into account. In the first place it is its international character: more than 80 jurisdictions are members of GEO and Earth observation data shared through GEOSS, in particular without restrictions on use, may be accessed and used essentially anywhere in the world. This situation stipulates use of licences that are valid under the laws of different jurisdictions, and increases the viability of opting for standard licences recognised by many. In addition, despite the voluntary nature of GEO, members who decide to share their data through GEOSS should be committed to the spirit of its goals and incorporate in licences they use clauses compatible with the GEOSS Data-CORE or at least with the GEOSS Data Sharing Principles.

F. Lessons learned for sharing factual data

53 Analysis undertaken in this paper identified specific challenges to making Earth observation data available through GEOSS, as well as mechanisms to overcome them and ensure legal interoperability of shared resources. The accomplished research allows to assume that essentially any other type of factual data can be made available for full and open access and use according to the same or similar approaches, rules, decisions or actions.

54 The option that ensures full legal interoperability of shared data and information is their active placement into the public domain. This can be done either through adopting a regulatory or policy option,¹⁰⁸ or through applying waivers of use rights by data authors or owners. Such waiver should provide users with the ability to freely use them,¹⁰⁹ and what is particularly important for the use of factual data – to allow creation of new works.¹¹⁰ Possibility to accomplish the latter is indispensable for a more extensive use of factual data and for full realisation of their value.¹¹¹

55 In cases where waiver of all or most of the rights is impossible, licences or contracts can be used. Their key feature should then be to incorporate comparable clauses that authorise the user to create and further distribute derivative products he makes. This step will contribute to interoperability of the shared resources. These licences or contracts should be compatible with the overall goal of the activity or a project, successful operation of which they are used to support. For the purpose of promoting legal certainty and acceptance, standard common use licences should be the primary choice. Customised licences and contracts should draw upon the provisions of such standard licences.

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- 1 See e.g. Business, citizens and environment to benefit from free access to EU satellite data, press release of the European Commission IP/13/1067 (13/11/2013), online: http://europa.eu/rapid/press-release_IP-13-1067_en.htm; US National Strategy for Civil Earth Observations (April 2013) at 9-14, online: http://www.whitehouse.gov/sites/default/files/microsites/ostp/nstc_2013_earthobsstrategy.pdf.
- 2 Online: <https://rd-alliance.org/>.
- 3 Online: <http://www.eudat.eu/>.
- 4 Online: <http://www.copernicus.eu/>.
- 5 Online: <http://recodeproject.eu/>.
- 6 Online: <http://www.lapsi-project.eu/>.
- 7 Today often this initial processing is done by the satellite itself.
- 8 Raber, G. Tullis, J. & Jensen, J. Remote Sensing Data Acquisition and Initial Processing (2005) XIV *Earth Observation Magazine* 5.
- 9 Collected by terrestrial or aerial sensors.
- 10 Principle I United Nations Principles Relating to Remote Sensing of the Earth from Outer Space. G.A. Res. 41/65, U.N. Doc. A/RES/41/65, December 3, 1986 (hereinafter UN Remote Sensing Principles).
- 11 In the terminology of the UN Remote Sensing Principles; terms used in national regulations do differ. For the discussion regarding the potential significance of the distinction among data, processed and information see Doldirina, C. *The Common Good and Access to Remote Sensing Data* (LAMBERT Academic Publishing, 2011), chapters 1 & 2.

- 12 For more details on the requirements for the applications developed for emergency response, see Kassebom, M. & Penne, B. Fast Emergency Response & Maritime Security. *Earth Observation: Solutions for Decision-Making*, Conference (May 27-28, 2008, Munich), online: http://www.dlr.de/Portaldata/1/Resources/veranstaltungen/eo_konferenz/02_ohb_2.pdf.
- 13 For the use of satellite Earth observation data to check compliance of agricultural practices with current EU regulatory requirements, see Richardson, P., Åstrand, P.J. & Loudjani, P. The CAP fits. *GeoConnexion International Magazine* (Nov/Dec 2014), online: http://www.geoconnexion.com/uploads/publication_pdfs/int-v13i10-the-cap-fits.pdf. For water management activities, see Wever, T. Earth Observation for improved water/land use management – experiences from Africa and Arabia. *Earth Observation: Solutions for Decision-Making*, Conference (May 27-28, 2008, Munich), online: http://www.dlr.de/Portaldata/1/Resources/veranstaltungen/eo_konferenz/06_gaf_ag.pdf.
- 14 Note that the term 'Earth observation data' as used in this article does not differ from the term 'remote sensing data' in the UN Remote Sensing Principles.
- 15 Remote Sensing Space Systems Act. S.C. 2005, c. 45. November 25, 2005.
- 16 H.R.6133, 1992.
- 17 See §2 "Definitions", Canadian Remote Sensing Space Systems Act.
- 18 Primary, unenhanced, etc. – the actual terminology used is secondary to the content of the definitions and the current analysis.
- 19 §2 Satellitendatensicherheitsgesetz (November 23, 2007) BGBl. I S. 2590, as amended.
- 20 For a more extensive analysis regarding definition of Earth observation data see in Doldirina, C. A Rightly Balanced Intellectual Property Rights Regime as a Mechanism to Enhance Commercial Earth Observation Activities (2010) 67 *Acta Astronautica* at 639–647.
- 21 ESA Data Policy, unclassified version, October 2012, online: https://earth.esa.int/documents/10174/296006/Revised_Simplified_EO_Data_policy_03102012.pdf/7df6dcc0-fe19-428c-bbf3-4335dee70fe4?version=1.0.
- 22 For further overview of Earth observation regulatory and policy framework see Dunk, F., *European Satellite Earth Observation: Law, Regulations, Policies, Projects, and Programmes* (2008-2009) *Chreighton Law Review* 42, at 397-445.
- 23 Cf. world-wide freely available Landsat data and imagery, as well as the decision of the European Union to make Sentinel data also freely available, vs. the policies of commercial Earth observation satellite operators and data processing companies like Blackbridge who offers slightly different licences depending on the territory where EO data are purchased (see online <http://blackbridge.com/rapideye/about/resources.htm>), or Airbus Defence & Space who differentiate among sensors and products (see online <http://www.geo-airbusds.com/en/886-legal-documents-and-supply-conditions>).
- 24 See online <https://www.disasterscharter.org/web/guest/home>.
- 25 See e.g. information from the European Maritime Safety Agency, online: <http://www.emsa.europa.eu/combined-maritime-data-menu/data-sources.html>. For an overview of the features of the most common fields that greatly profit from the use of satellite Earth observation data see Surrey Satellite Technology, Applications of Earth Observation, online: <http://www.sstl.co.uk/Downloads/Brochures/SSTL-Applications-Brochure-Web>.
- 26 GEO Data Sharing Working Group, Mechanisms to Share Data as part of GEOSS Data-CORE, *Draft White Paper* on file with the author (Hereinafter Draft White Paper).
- 27 As of December 2014. Participants are referred to in GEO documents and throughout this paper as members (governments) and participating organisations. For more information about GEO, see online: https://www.earthobservations.org/about_geo.shtml.
- 28 February 16, 2005, online: <https://www.earthobservations.org/documents/10-Year%20Implementation%20Plan.pdf>.
- 29 Description of GEOSS, online: <http://www.earthobservations.org/geoss.shtml>.
- 30 GEO Report on Progress (November 5, 2010), at 38, online: <https://www.earthobservations.org/documents/ministerial/beijing/MS2-The%20GEO%20Report%20on%20Progress.pdf>.
- 31 GEOSS 10-Year Implementation Plan (February 16, 2005), at 1.
- 32 GEOSS 10-Year Implementation Plan, at 8.
- 33 GEOSS Data Sharing Action Plan (November 8, 2010), at 3, online: http://www.earthobservations.org/documents/geo_vii/07_GEOSS%20Data%20Sharing%20Action%20Plan%20Rev2.pdf.
- 34 See an article focusing on the relation of GEOSS to the concept of the common good: Doldirina, C. The Progress of Setting up GEOSS after November 2010 – the Necessity to Secure Adherence to its Data Sharing Guidelines. *IAC Proceedings* 2011.
- 35 For the comprehensive overview of the content of the GEOSS Data Sharing Principles, as well as of their implementation see Uhler, P.F., Chen, R.S., Gabrynowicz, J.I., Janssen, K. Toward Implementation of the Global Earth Observation System of Systems Data Sharing Principles. 35 *Journal of Space Law* 1 (2009) 201.
- 36 November 18, 2009, online: https://www.earthobservations.org/documents/geo_vi/07_Implementation%20Guidelines%20for%20the%20GEOSS%20Data%20Sharing%20Principles%20Rev2.pdf.
- 37 Section 2 Implementation Guidelines for the GEOSS Data Sharing Principles, as accepted at GEO-VI (November 17-18, 2009). Online: http://www.earthobservations.org/documents/geo_vi/07_Implementation%20Guidelines%20for%20the%20GEOSS%20Data%20Sharing%20Principles%20Rev2.pdf (last accessed 29.08.2011).
- 38 Section 2.2 Implementation Guidelines, *supra* note 28; Draft White Paper, *supra* note 17.
- 39 Draft White Paper, *ibid*.
- 40 Draft White Paper, *ibid*. See also Section 4 Implementation Guidelines, *supra* note 28, where the link between the concept of the public good and GEOSS data pricing policy is emphasised. For a more extensive discussion regarding implementation of GEOSS Data Sharing Principles and the common (or public) good, see Doldirina, C. Implementation of GEOSS Data Sharing Principles: Relationship with the Regional and National Data Access Initiatives. *IAC Proceedings* 2012.
- 41 The White Paper, *ibid.*, lines 545-550.
- 42 Imposition of the use conditions normally depends on the national regulatory requirements or data policies of those sharing the data. For example, it is the default rule of the European Union to demand attribution for the data (or other subject-matter protected by intellectual property rights) it shares and makes available for further use. See the EU legal notice, online: http://europa.eu/geninfo/legal_notices_en.htm.
- 43 See e.g. Davies, T. The Open Data Barometer 2013 Global Report, online: <http://www.opendataresearch.org/dl/odb2013/Open-Data-Barometer-2013-Global-Report.pdf>.
- 44 Directive 2013/37/EU of the European Parliament and of the Council of 26 June 2013 amending Directive of 2003/98/EC on the re-use of public sector information [2013] *OJ L* 175, at 1-8.
- 45 Commission Decision 2011/833/EU of 12 December 2011 on the reuse of Commission documents [2011] *OJ L*, at 39-42.

- 46 See online: <http://www1.hcdn.gov.ar/dependencias/dsecretaria/Periodo2012/PDF2012/SANCIONES/1927-D-2011.pdf>.
- 47 Finland's Public Sector ICT Strategy 2012-2020, November 2012, online: https://www.vm.fi/vm/en/04_publications_and_documents/03_documents/20121112Public/name.jsp.
- 48 White Paper on Information and Communication in Japan in Open Data (April 19, 2013), online: http://www.soumu.go.jp/main_sosiki/joho_tsusin/eng/Releases/Telecommunications/130419_01.html.
- 49 Principles for Managing Data and Information held by the New Zealand Government (August 8, 2011), online: <http://www.ict.govt.nz/programmes/open-and-transparent-government/new-zealand-data-and-information-management-principles#fn1>.
- 50 Open Data Policy – Managing Information as an Asset (May 9, 2013), online: <http://www.whitehouse.gov/sites/default/files/omb/memoranda/2013/m-13-13.pdf>.
- 51 June 18, 2013, online: <https://www.gov.uk/government/publications/open-data-charter/g8-open-data-charter-and-technical-annex>.
- 52 GEO Data Sharing Working Group, Proposal for the updated GEOS Data Sharing Principles, online: ftp://earthobservations.org/Data_Sharing/1_DSWG%20Documents/10_GEOS%20Data%20Sharing%20Principles%20post%202015.doc.
- 53 For the GEO interpretation see Implementation Guidelines for the GEOS Data Sharing Principles (November 2009), online: https://www.earthobservations.org/documents/geo_vi/07_Implementation%20Guidelines%20for%20the%20GEOS%20Data%20Sharing%20Principles%20Rev2.pdf.
- 54 For a more detailed comparison see GEO Data Sharing Working Group, Interpretation of the “full and open” access to and use of (geographic) data: existing approaches, living paper (October, 2013), online: [ftp://earthobservations.org/Data_Sharing/1_DSWG%20Documents/08_Interpretation%20of%20the%20%E2%80%9Cfull%20and%20open%E2%80%9D%20access%20to%20and%20use%20of%20\(geographic\)%20data%20existing%20approaches.docx](ftp://earthobservations.org/Data_Sharing/1_DSWG%20Documents/08_Interpretation%20of%20the%20%E2%80%9Cfull%20and%20open%E2%80%9D%20access%20to%20and%20use%20of%20(geographic)%20data%20existing%20approaches.docx).
- 55 I.e. they represent author's original expression of ideas.
- 56 On differences between the nature and characteristics of protection of intellectual property vs tangible property, see Jeremy Waldron, From Authors to Copiers: Individual Rights and Social Values in Intellectual Property, (1993) 68 *Chi.-Kent L. Rev.* 841, at 850-51; Wagner, R.P. Information Wants to be Free: Intellectual Property and the Mythologies of Control (2003) 103 *Colum. L. Rev.* 995, at 1001-1003; Smith, H.E. Intellectual Property as Property: Delineating Entitlements in Information (2006-2007) 116 *Yale L.J.* 1742.
- 57 Berne Convention for the Protection of Literary and Artistic Works (September 9, 1886), as last amended September 28, 1979, 1161 *U.N.T.S.* 30.
- 58 The US Copyright Act. Title 17 US Civil Code (October 19, 1976) Pub. L. No. 94-553. 90 Stat. 2541 as amended; German Copyright Law, Urheberrechtsgesetz (September 9, 1965) *BGBL. I S.* 1273 as amended; UK Copyright, Designs and Patents Act 1988) C 48 as amended, and French Intellectual Property Code (July 1, 1992) Law No. 92-597 as amended all serve as good illustrations.
- 59 See e.g. designer clothes as works of authorship under Art. L. 112-2(14) French Copyright Code, *ibid*.
- 60 §101 – the definition of ‘created’, *supra* note 46.
- 61 §15(1), *supra* note 46.
- 62 See e.g. the definitions of ‘computer program’, ‘dramatic work’ and ‘sound recording’ Sec. 2, R.S.C., 1985, c. C-42.
- 63 See e.g. §2(2) German Copyright Law: protected works should be personal intellectual creations (WIPO translation, online: http://www.wipo.int/clea/en/text_html.jsp?lang=EN&id=1008), *supra* note 46.
- 64 ‘Original’ being something that is not copied. For a discussion on the interpretation of the authorship and creativity principle, see e.g. Ginsburg, J. The Concept of Authorship in Comparative Copyright Law (2002-2003) 52 *DePaul L. Rev.* 1063, at 1072-1091; see also Perry, M. & Margoni T. From Music Tracks to Google Maps: Who Owns Computer-generated Works? (2010) *Law Publications*. Paper 27, section 3.
- 65 E.g. in the US, after the case *Feist Publications, Inc., v. Rural Telephone Service Co*, 499 U.S. 340 (1991).
- 66 See Articles 9(2), 10 Berne Convention, *supra* note 45 and Article 10 WIPO Copyright Treaty (December 20, 1996) 2186 *U.N.T.S.* 121.
- 67 Article 5 Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society [2001] *OJL* 10-19.
- 68 Codified in Section 107 US Copyright Act, *supra* note 46.
- 69 Directive 2011/77/EU of the European Parliament and of the Council of 27 September 2011 amending Directive 2006/116/EC on the term of protection of copyright and certain related rights.
- 70 Chapter 3 US Copyright Act, *supra* note 46.
- 71 Arts. 2, 5 WIPO Copyright Treaty, *supra* note 54.
- 72 See the US Land Remote Sensing Policy Act (1992) H.R.6133, and the UN Remote Sensing Principles, *supra* note 6.
- 73 §3(3), Satellitendatensicherheitsgesetz, *supra* note 13.
- 74 §2(2) of the German Copyright Law, *supra* note 46.
- 75 Author's own translation.
- 76 See e.g. *Stadtplanwerk* BGHZ 139, S. 68; *NJW* 1998, S. 3352, reconfirmed in I ZR 227/02 *GRUR* 2005, S. 854.
- 77 West, J.R., “Copyright Protection for Data Obtained by Remote Sensing: how the Data Enhancement Industry Will Ensure Access for Developing Countries” (1990) 11 *Nw. J. Int'l L. & Bus.* 403, referring to the United States' submission at the UN COPUOS stating that enhanced data being the product of the analyser should be considered his property. See UN COPUOS, Report of the Scientific and Technical Sub-Committee on the Work of its 15th Session (1978) U.N. Doc. A/AC.105/216 at 8.
- 78 Principle I Remote Sensing Principles, *supra* note 6.
- 79 See e.g. details regarding processing in *Transforming Remote Sensing Data into Information and Applications* (National Academies Press, 2001) 16, online: <http://www.nap.edu/catalog/10257.html>.
- 80 Depending on the jurisdiction referred to as Access to Information Acts, Freedom of Information Acts or regulations regarding access to and use of public sector information.
- 81 This section only aims to give a very brief overview of the existing FOIA regulations. For a more extensive analysis see Smith, L.J. & Doldirina, C. Remote Sensing: The Three E's – A Case for Moving Space Data towards the Public Good (2008) 24/1 *Space Policy Journal* 22-32.
- 82 This trend is briefly mentioned in section III.2 of this paper.
- 83 Known as Aarhus Convention. June 25, 1998 2161 *U.N.T.S.* 447.
- 84 E.g. UK Freedom of Information Act 2000, c.36.
- 85 E.g. Freedom of Information Amendment (Reform) Act No. 51 of 2010, as amended; Council of Europe Recommendation Rec(2002)2 on access to official documents, available at [http://www.coe.int/T/E/Human_rights/rec\(2002\)2_eng.pdf](http://www.coe.int/T/E/Human_rights/rec(2002)2_eng.pdf), last visited 02.02.2007.
- 86 E.g. U.S. *Freedom of Information Act*, 5 U.S.C. sect. 552; Canadian Access to Information Act. R.S. 1985, c. A-1, s 3.

- 87 Schedule 1, Sec. 3 Australian Freedom of Information Act, *supra* note 73; Part. 2 Interpretation New Zealand Official Information Act 1982 No 156.
- 88 Like in the UK, where the Ordnance Survey is a Crown corporation, as well as in some other member states of the European Union, even though the situation has been substantially changing in recent. See Onsrud, H.J. Geographic Information Legal Issues, in *Encyclopedia of Life Support Systems (EOLSS)* (EOLSS Publishers, Oxford, UK, 2004).
- 89 The example of the US federal regulations is the most prominent one, although the situation may differ on the states' level. See e.g. Dansby, H.B. A Survey and Analysis of State GIS Legislation (1992) *GIS Law* 1(1) at 7-13.
- 90 *Supra* note 1. Earth observation data should be fully and openly available promptly, without discrimination and free of charge whenever possible.
- 91 This is a standard approach, since most of the rules operate alongside exceptions or limitations that constrain their application. See e.g. Canadian Access to Information Act, Section 2(a): The purpose of the Act is to "allow any person a *right of access* to the records in the custody or under the control of a public body *subject to limited and specific exceptions*" (emphasis added), *supra* note 74.
- 92 Part II UK Freedom of Information Act, 2000 c. 36.
- 93 Schedule 3 Freedom of Information Amendment (Reform) Act, *supra* note 73.
- 94 The Freedom of Information Act 5 U.S.C. § 552, as amended.
- 95 These exemptions (called also exceptions or restrictions) are quite extensive, but have to be read narrowly. This stance is in accord with regulatory practices in other jurisdictions. For instance, in the US disclosure of information by public bodies is the main rule as well, and "any exception to that rule will be narrowly construed in light of the general policy of openness expressed" in the Freedom of Information Act (*Ottochian v. Freedom of Info. Comm'n*, 604 A.2d 351 (Conn. 1992)). For a general discussion of the impact of the new technologies on the enforcement of FOIAs and access to databases (in the US) see Bloom, I. "Freedom of Information Laws in the Digital Age: The Death Knell of Information Privacy" (2005-2006) 12:3 *Rich. J.L. & Tech.* 9; see also MacDonald J. & Jones, C.H. eds. *The Law of Freedom of Information* (Oxford University Press, 2003) at 9.25-9.77.
- 96 E.g. Art. 4(2) Regulation (EC) No 1049/2001 of the European Parliament and of the Council of 30 May 2001 regarding public access to European Parliament, Council and Commission documents [2001] *OJ L* 145 at 43-48.
- 97 § 552(b)(9) US Freedom of Information Act, *supra* note 74.
- 98 Sec. 105(a) the US Land Remote Sensing Policy Act, *supra* note 60; see Landsat Data Distribution Policy, online: https://landsat.usgs.gov/documents/Landsat_Data_Policy.pdf.
- 99 See Soares, J. V., Epiphanio, J.C., Camara, G., CBERS-2B For Africa, report, online: <ftp://ftp.earthobservations.org/C4/Giovanni/06/06%20-%20CBERS%20revOct.doc>.
- 100 Depending on the will of the author or rightholder, or applicable legislation (e.g. with regard to moral rights).
- 101 See online: <http://creativecommons.org/licenses>.
- 102 See online: <http://opendatacommons.org/licenses>.
- 103 See online: <http://www.nationalarchives.gov.uk/doc/open-government-licence/version/2/>; for context and further details see online: <http://www.nationalarchives.gov.uk/information-management/uk-gov-licensing-framework.htm>. A version of it is also used in Canada.
- 104 See online: <http://creativecommons.org/licenses/by/4.0/legalcode>.
- 105 For short description and links to full text of all mentioned licences, see *supra* note 89.
- 106 See e.g. definition of the 'adaptation' in Sec. 20 UK Copyright, Designs and Patents Act, *supra* note 46; of the 'Bearbeitungen' (adaptations) in §23 German Copyright Law, *supra* note 46; of the 'derivative work' in §§101, 103 US Copyright Act, *supra* note 46.
- 107 Here some jurisdictional differences need to be kept in mind, in particular, for example in Europe, where copyright laws contain more requirements to contracts than in the US. However, where a contract serves the purpose of enabling use, rather than restricting it, no immediate issues with it enforceability arise.
- 108 With regard to the discussion as to whether intellectual property is (always) the most adequate option, see Perry, M. Digital Propertisation of the New Artefacts: the Application of Technologies for "Soft" Representations of the Physical and Metaphysical (2003-2004) 11 *Cardozo J. Int'l & Comp. L.* 671.
- 109 See Boyle, J. *The Public Domain: Enclosing the Commons of the Mind* (New Haven, London: Yale University Press, 2008), at 65 ff.
- 110 See Besser, H. Commodification of Culture Harms Creators (American Library Association, 2001), online: <http://www.ala.org/offices/oitp/publications/infocommons0204/besser>.
- 111 See e.g. Ryerson, B. Making Remote Sensing Operational: A Changing World Requiring Changing Approaches to Data Policy. *The First International Symposium on Cloud-prone and Rainy Areas Remote Sensing* (Hong Kong, October 6-8, 2005), online: <http://kimgeomatics.com/uploads/kim/2008/10/invited-paper-on-rs-data-policy-hong-kong-2005.pdf>.

Under One Umbrella

Problems of Internet Retransmissions of Broadcasts and Implications for New Audiovisual Content Services

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Abstract: The development of broadband Internet connections has fostered new audiovisual media services and opened new possibilities for accessing broadcasts. The Internet retransmission case of TVCatchup before the CJEU was the first case concerning new technologies in the light of Art. 3.1. of the Information Society Directive. On the other side of the Atlantic the Aereo case reached the U.S. Supreme Court and challenged the interpretation of public performance rights. In both cases the recipients of the services could receive broadcast programs in a way alternative to traditional broadcasting channels including terrestrial broadcasting or cable

transmission. The Aereo case raised the debate on the possible impact of the interpretation of copyright law in the context of the development of new technologies, particularly cloud based services. It is interesting to see whether any similar problems occur in the EU. The „umbrella” in the title refers to Art. 8 WCT, which covers digital and Internet transmission and constitutes the background for the EU and the U.S. legal solutions. The article argues that no international standard for qualification of the discussed services exists.

Keywords: Audiovisual Media Services; CJEU; Right to make available to the Public; WCT; InfoSoc

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Recommended citation: Katarzyna Klafkowska-Waśniowska, Under one umbrella Problems of Internet Retransmissions of Broadcasts and Implications for New Audiovisual Content Services, 6 (2015) JIPITEC 86, para 1.

A. Introduction.

1 The aim of the WIPO Copyright Treaty (hereinafter: „WCT”) was to set the scene for the exploitation of works on the Internet. In the package of rights that should have ensured the interests of authors in the new (at the time of conclusion of the treaty) environment, a prominent one is the right of communication to the public covering electronic transmission. According to Art. 8 of the WCT, without prejudice to the provisions of the Berne Convention expressly referred to in this provision „*authors of literary and artistic works shall enjoy the exclusive right of authorizing any communication to the public of their works, by wire and wireless means*”. According to the final part of the provision, the

right includes the right to make a work available to the public in such a way that members of the public may access this work from a place and at a time individually chosen by them. The characteristics of the Internet retransmission cases discussed in this article are that they may involve the authors’ rights as specified in the WCT, but also the rights in broadcast programs or rights of audio-visual producers. It is not necessary for the purpose of the article to unbundle those rights, yet it should be stressed that provisions of the WCT form the context in which the interpretation of provisions of the EU and the U.S. law is set, and that in the discussed cases the authors, and not the neighboring rights

holders are in focus. The provision of Art. 8 WCT is called an „umbrella solution”, which refers to a neutral way of describing the digital transmission, leaving sufficient freedom to national legislation as to the choice of the actual rights that apply. The broad right of communication to the public should also fill the gaps in the Berne Convention’s provision on broadcasting and retransmission rights.¹

- 2 The „umbrella solution” thus covers different acts of transmission, irrespective of the applied technology, as long as the communication is „to the public”. The “umbrella” of the WCT is the starting point to discuss the problems raised in the light of the CJEU judgment in *TVCatchup*², and the U.S. Supreme Court judgement in the *Arereo*³. The meaning of the term „to the public” is subject to discussion both in the EU and the U.S. In the article, the scope of the right of communication to the public, and particularly the delineation between those communicating to the public and mere distributors, with implications for the emerging audiovisual services is discussed. It is argued that enabling on-demand viewing, which is the core of various new audiovisual services, in itself does not trigger Art. 8 WCT, and that Art. 8 WCT „was never meant to make every provider of tools and services that allow consumer to make and transmit copies of content to themselves directly liable for copyright infringement”.⁴ It is of particular importance how this problem is approached in the EU law.

B. Right of communication to the public under EU law.

- 3 In the EU, the harmonization of the right of communication to the public for authors has been completed⁵ with the introduction of Art. 3 of the Information Society Directive⁶. Art. 3.1 of the Directive obliges the Member States to provide authors with the exclusive right to authorize or prohibit any communication to the public of their works, by wire or wireless means, including the making available of their works, which is characterized in an analogous way to Art. 8 of the WCT.
- 4 The last two years have brought new rulings in the CJEU’s body of case law on the right of communication to the public, where the potential exploitation of works on the Internet is at stake. In the *Svensson* ruling, the CJEU clarified that Art. 3.1. must be interpreted as „precluding a Member State from giving wider protection to copyright holders by laying down that the concept of communication to the public includes a wider range of activities than those referred to in that provision”. This confirms the earlier comments that Art. 3.1 constitutes the full harmonization⁷. This ruling strengthens the obligation to interpret the national law in a uniform way, taking into account

the case law of the CJEU in the subject matter. With this formal premise in mind, it should be noted, that the interpretation of this provision in the context of evolving services, for example in the audiovisual media sector, has just started.

C. Public performance right under U.S. law.

- 5 There is no analogous provision in the US Copyright Act and different rights may apply in the case of making the work available to the public, including reproduction, distribution, public display and public performance rights, depending on the facts of the case.⁸ In the *Aereo* case the application of the public performance right granted to copyright holders in motion pictures and some other works 17 U.S.C. §106(4) was the key problem. What it means to perform the work publicly is explained in the definitions in § 101, and the reference to electronic transmissions is enshrined in what is called the „Transmit” clause.⁹ To perform the work publicly means to „transmit or otherwise communicate a performance or display of works (...) to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times”. The solution that exists in the U.S. Copyright Act originates in the development of cable services and Community Antenna Television (CATV), where the courts were of the opinion that cable systems do not infringe or implicate the copyright owner’s right. Eventually, the Congress legislatively reversed those decision in the 1976 Copyright Act, with section 111 regulating cable services and providing for a compensation scheme¹⁰. With the advent of new transmission technologies the scope of the public performance right has been analyzed in relation to the new services offering access to broadcast content, with the example of services combining the possibilities for remote storage and playing the broadcast content¹¹. Those services might be described as combining the characteristics of video recorders and video on demand.

I. Retransmission of programs in the EU.

1. A look at CJEU’s case law on the right of communication to the public.
- 6 The „umbrella” may of course be a metaphor for seeking legal solutions in EU and US when it comes to the application of the right of communication to the public, but it is also used to underscore

the bundle or cluster¹² of authors' rights that this right covers. In the EU law, according to the preamble of the Information Society Directive, the right of communication to the public covers all communication to the public not present at the place where the transmission originates. This includes broadcasting and rebroadcasting by wire or wireless means¹³. There is thus an expressive reference to the act of rebroadcasting, but the criteria when a retransmission occurs are not defined. The scope of the right of communication to the public and particularly the problem what the indication that the right should not cover any other acts than transmission or retransmission actually means, has been discussed on the canvas of the *Svensson* case¹⁴.

- 7 The first cases decided by the CJEU on the basis of Art. 3.1 of the Information Society Directive did not consider new technologies, but rather examined the well-known problem of the use of broadcasts in hotel rooms.¹⁵ With the broad definition of the right of communication to the public, the collective management organizations challenged various national provisions that aimed at exempting some particular uses of broadcast from obtaining the rightholders' authorization. In the body of case law concerning the use of broadcasts, the CJEU considered not only hotels but also pubs, a spa resort and a dentist's practice¹⁶. Those cases are important for the interpretation of Art. 3.1 of the Information Society Directive. On the basis of the hotel room case, the CJEU formed the groundwork for the uniform interpretation of the right of communication to the public in the EU, and the *SGAE* case is referred to as establishing a standard.¹⁷

2. Broadcasters, webcasters and distributors.

- 8 The first case concerning Internet exploitation and the right of communication to the public has been *TVCatchup*. The question referred concerned the Internet retransmission of broadcasts. The Court's answer that such an act is covered by the right of communication to the public is not particularly controversial. The reasoning of the Court should however be discussed with reference to the development of the criteria for assessing whether there is a communication to the public and what the possible implications for other Internet and cloud based services are.
- 9 The case comes from the UK, one of the leading European markets in audiovisual services. The service at stake, which is to some extent similar to the Aereo service discussed in the U.S., *TVCatchup* was offering online television, streamed to users as a near-live transmission, without interference in the broadcasts but with addition of new pre-roll

advertising. *TVCatchup* ensured that users of the service were legally entitled to receive the broadcasts by virtue of their television license. Commercial broadcasters, whose broadcasts were retransmitted that way, initiated proceedings, claiming the infringement of the right of communication to the public as enshrined in the Sec. 20 of the Copyright, Designs and Patents Act 1988. The English High Court decided to halt the proceedings and to refer the question for a preliminary ruling. The questions of interpretation were raised particularly in the light of the earlier cases *SGAE*, and *Airfield NV and Canaal Digital* and they first of all concerned the significance of the criterion of the new public. In *SGAE*, the CJEU invoked the interpretation of the provisions of the Berne Convention and the explanation that when the author authorizes the broadcasts, he considers only direct users, which are the owners of the reception equipment. When the broadcast is received by a different audience and possibly for profit, the audience is considered to be a new public, and the broadcast requires separate authorization. The same reasoning has been applied by the CJEU to the communication of broadcasts in hotel rooms, where the clientele is forming a new public¹⁸.

- 10 In the joined cases *SABAM v Airfield NV and Canaal Digital*, and *Agicoa v Airfield NV*, the Belgian collective societies claimed that *Airfield NV* and *Canaal Digital* were infringing the right of communication to the public because they were rebroadcasting the programs of other broadcasters by satellite without the authorization of authors and producers of works included in the broadcasts. *Airfield* was a satellite television provider, offering viewers satellite packages consisting of free-to-air and encrypted channels, on the basis of the agreement the company concluded with the broadcasters. In case of encrypted channels *Airfield* offered its subscribers a decoder card enabling to access the broadcasts. *Airfield's* and *Canaal Digital's* position was that they carry rebroadcasting and thus did not communicate the broadcasts to the public, but that they only offered the programs to the public on behalf of the broadcasting organizations.¹⁹ The Court decided that the provisions of the Satellite and Cable Directive and not the provisions of the Information Society Directive were relevant to this case. This choice of the legal base may be questioned and the arguments of the Court have been criticized heavily²⁰. In its preliminary ruling, the CJEU has nonetheless applied the reasoning analogous to the one from the previous cases based on the Information Society Directive. The Court rejected *Airfield's* arguments, and stated that when the operator intervenes in the process of communication to the public, with the result that he makes the protected subject matter accessible to a public wider than targeted by the broadcasters, he is expanding the circle of viewers, and is communicating to a new public. The Court concurred that this was the case, noting

that the satellite package provider was offering a new audiovisual product and was responsible for its composition. It follows that satellite package operators are required to obtain the authorization, from the rightholders concerned for its intervention in the communication to the public by satellite²¹.

- 11 *The Airfield NV and Canaal Digitaal* case concerns the provisions of the directive covering only cable and satellite transmission. The *TVCatchup* case brought the question of the „new public”, when it comes to the „new audiovisual services”, to the fore of the Information Society Directive. *TVCatchup* claimed that in their case there is no „new public” as users are entitled to receive these broadcasts anyway. The English Court also asked whether it is relevant that the *TVCatchup* service is for profit (because of additional advertising) and in competition with traditional broadcasters for the same audience. In this case the CJEU’s interpretation of the scope of the right of communication to the public is that it covers a retransmission of the works included in the terrestrial television broadcast where the retransmission is made by an entity other than the original broadcaster, even though the subscribers are within the area of reception of those broadcasts and may lawfully receive the broadcasts on a television set. The Court has further explained that this answer is not influenced by the fact that the retransmission is for profit and made by an organization directly competing for the audience with the broadcasters. The CJEU distinguished the *TVCatchup* case from *SGAE* and *Airfield* cases stating that each transmission made under specific technical conditions and using different means of transmission requires a separate authorization.

II. Online access to broadcasts in the U.S.

- 12 The Aereo service was launched in 2012 for viewers of local channels in New York.²² Aereo offered its subscribers online access to over-the-air broadcasts by using a particular technology. The Aereo service functioned by operating thousands of tiny antennas individually assigned to users. When a user would click and choose a broadcast from a list of programs on Aereo’s website the server would tune one of the antennas to the broadcast chosen and the user would initiate streaming in a one-to-one connection and receive the broadcast on a laptop or other portable device. Aereo’s system operated by creating a subscriber specific copy. This individual copy was the source for the subsequent individual transmission and could also be saved for later viewing. As Aereo was acting without authorization from the holder of the copyright of the broadcasted works, the rightholders initiated proceedings before the District Court of New York. The District Court

denied their motion.²³ This decision was affirmed in the appeal before the Second Circuit Court.²⁴

- 13 As Aereo was not the only service of that kind other lawsuits concerning the service FilmOn - previously known as Aereokiller - and alike were initiated as well. The U.S. District Court for the Central District of California decided in *Fox Television Systems, Inc. v. BarryDriller Content Systems, PLC (BarryDriller)*²⁵ that FilmOn violated the plaintiff’s copyright - applying a different public performance test than in the Aereo case²⁶. Furthermore the U.S. District Court for the District of Columbia concluded that the Copyright Act forbids FilmOn retransmitting the copyrighted programs to the Internet, and issued an injunction.²⁷ In what was described as public-performance conundrum the Supreme Court granted certiorari to determine the public-performance approach,²⁸ and decided in favor of the broadcasters in June 2014²⁹.
- 14 It was correctly pointed out that Aereo’s „*design has to be viewed through the lens of recent judicial interpretation of U.S. copyright, and that Aereo sought to exploit the contours of existing law as interpreted in the Supreme Court’s decision in Sony*”³⁰ and the Second Circuit in *Cablevision*.³¹ The *Cablevision* decision³² seems of particular importance for the emergence of online television services,³³ and may be viewed as one of the sources of the divergent approach of the U.S. courts. In this case the cable provider Cablevision offered a Remote Storage Digital Video Recording System (RS-DVR), a service that allowed each subscriber to generally time-shift and play the chosen broadcasts on-demand. Digital video recording formed the basis for the service but the subscribers did not need to buy recording devices. A subscriber could simply press the button on the remote and initiate the recording on Cablevision’s hard drive. This way individual copies for each broadcast chosen by each user were created and were available only to this user. It was also possible to choose a broadcast from any channel within one’s subscription from Cablevision’s program guide. The content was played back on the user’s television set, with the use of a cable set-top-box and a remote. The interesting question was whether the transmission, when the video was played back to the customer, constituted a public performance?
- 15 Cablevision did not seek to obtain any license from the rightholders. In the district court it was successfully argued that Cablevision directly infringed the public performance right along with the reproduction right. But the Second Circuit reversed the decision comparing the service offered by Cablevision to video recorders and concluded that copies are „made by the RS-DVR customer”, so it is not sufficient to find Cablevision directly liable. The interpretation of the „Transmit” Clause was an important point of consideration in determining whether Cablevision was performing to the public. The Second Circuit

found it crucial that transmissions are made only to one subscriber, from the copy made by this specific subscriber. Therefore the copy is not transmitted „to the public”.³⁴ In the words of J. Ginsburg and R. Giblin it appears to instruct technology providers how to design their services so that the structure of the service immunizes it from copyright liability under reproduction and public performance rights in appropriate cases.³⁵

- 16 When considering the *Aereo* case, the U.S. Supreme Court raised two fundamental questions: is *Aereo* performing at all? Is *Aereo* performing to the public?³⁶ Stressing the similarities with CATV providers, the Court pointed out that *Aereo* is not simply an equipment provider. In the light of Congress' basic purpose in amending the Copyright Act with the CATV providers in mind, the Supreme Court decided that *Aereo* could be directly liable for the public performance, as long as the „to the public” element is satisfied. The Court dismissed the technical considerations that seemed so vital to *Aereo*'s functioning. It stated that the behind-the-scenes way in which *Aereo* delivers the programming does not render *Aereo*'s commercial objectives any different from cable companies, nor does it significantly alter the viewers' experience.³⁷ In the opinion of the Supreme Court the „Transmit” clause must permit the interpretation that an entity may transmit a performance through one or several transmissions and the „public” need not to be situated together either spatially or temporally. Taking into account the opinions expressed in a number of *amicus briefs* the Court called its holding „limited” and pointed out that it does not determine whether different types of providers in different contexts also „perform”.³⁸ The Court reversed the judgment of the Court of Appeals, and remanded the case for further proceedings.

III. „New public” and „public” at all – no easy answers?

1. EU –the „new public” problem.

- 17 The question when the communication, or performance „to the public” occurs, is one that resonates both in the EU and the U.S. discussion. Apart from the considerations on the notion of „the public”, relevant in a number of the CJEU's rulings, the two cases discussed in this article highlight the question when the „communication” is an act which requires the rightholders' consent? The answer should be easy: when it is made to the public. In the *TVCatchup* case, the Court summed up what seems to be the generally accepted definition. The Court began with stating that „the public” refers to an indeterminate number of recipients and implies a

fairly large number of people. The „cumulative effect of making the works available” should be taken into account, which means taking into account the members of the public „who may access the works at the same time and successively”. In the case of Internet retransmissions it led to the conclusion that it is „irrelevant that the potential recipients access the communicated works through a one-to-one connection”. It is sufficient that a „fairly large number of people have access to the same works, at the same time”.³⁹ Therefore, the „to the public” aspect of the communication is undisputed in the case of an Internet retransmission.

- 18 On the level of the language used it may be noticed that the Court explains the „right of communication to the public” by using the term „*making the works available*”. Even though the linguistic aspect should not be emphasized to much, the relationship between the interpretation of the broader right of communication to the public and the narrower making available right seems to be a bigger problem. If we look closer, we can see that the Court stated in the *SGAE* case that „for there to be a communication to the public it is sufficient that the work is made available in such a way that the persons forming the public may access it”⁴⁰ - which follows from article 3.1 of the Information Society Directive and Art. 8 of the WCT. It might be argued that this approach allows for qualifying hyperlinking as a potential infringement of the right of communication to the public. The debate among academics and copyright organizations such as the European Copyright Society and the ALAI Organization⁴¹ arose around the *Svensson* case and continued with the references in the *Bestwater* and *Cmore Entertainment* cases and the CJEU's rulings of this cases.⁴² Even though it has been submitted that a hyperlink does not „provide” the work, thus establishing that a hyperlink cannot be „communicating to the public of the work”⁴³, the Court justified the statement that „the provision of clickable links to protected works must be considered to be ‘making available’ and, therefore, an ‘act of communication’, by invoking the specific part of the *SGAE* ruling⁴⁴. In the *Svensson* case the Court specified that the making available right, as one of the rights in the scope of the right of communication to the public, is at stake, and the final conclusion was that when all Internet users can have access to the particular work, providing a hyperlink does not lead to the works in question being communicated to a new public⁴⁵. Apparently, in this case the „new public” criterion is a decisive one. It leaves a substantial area of uncertainty when it comes to the future of application of the right of communication to the public.
- 19 Zooming in on the „new public” as the premise of the right of communication to the public we can make a short summary. It was introduced in the Court's interpretation of the *SGAE* case with an explicit

reference to the Berne Convention⁴⁶ and applied to clarify the position on the use of broadcasts in hotel rooms. In the *Premier League* case it was applied with the remark, that the commercial character of the service is not irrelevant⁴⁷. In the *Airfield* case the „new public” criterion was used to strengthen the position that *Airfield* is actually communicating to the public and to distinguish its activities from those of the mere distributor. In the *TVCatchup* case the „new public” issue was dismissed and the case distinguished from others on the basis of different technical means. In *Svensson*, the „new public” criterion was again relevant. In fact, for the first time the existence of the „new public” is a key element of the right of communication to the public. It is a difficult question which general conclusions might be inferred here. It has been welcomed that the CJEU took a purposive approach, thus avoiding the perils of interpreting copyright in a formalistic way, as in the *Aereo* case.⁴⁸ It was also noted that the approach in *TVCatchup* is economic and favorable to the rightholders⁴⁹. If we compare the application of the ‘new public’ criterion in *Svensson* and in *TVCatchup*, we can see that when the work is disseminated over the Internet (made available) without access restrictions, and subsequently a person provides a link to it, he/she is not a communicating to the public, because there is no new public. When however, the work is disseminated in an over-the-air transmission or satellite broadcast and subsequently retransmitted over the Internet it is communicated to the public and the fact that it is not to a new public is irrelevant. Although the first case concerns the making available right and the second the retransmission right. Both rights come under the umbrella of a right of communication to the public. The difference between Internet-only exploitation and other forms of communication to the public lies in the application of the technology dependent criteria developed by the Court. The application of the “new public”, „the specific technical conditions” and „different means of transmission” criteria in the future raises a lot of questions. In its interpretation of the retransmission right the CJEU has simplified the answer as much as possible, narrowing its reasoning to the presence of „organization other than the original broadcaster” and the different means of transmission, in the case the Internet stream. The guidance of the CJEU is so far limited, and hopefully the „new public” criterion is not a dead end.

2. U.S. - the public performance right and implications for cloud based services.

20 The question of the ‘new public’ was not a centerpiece of the debate in the US. Based on the new model of services, exemplified in the cases *Cablevision* and *Aereo*, the discussion focused on

the differentiation between public and private performance.⁵⁰ The suggested proposals aimed at substituting the *Cablevision* test for public performances with the new test and debated the consequences of sustaining that approach. This approach has been described as the „transmission centric public performance test”⁵¹. It was suggested that the „single copy” test be substituted by other tests applied to online performance - for example the „substitution” and „substantial audience” test.⁵² The latter would serve to differentiate the nonlinear performances that are a substitution for linear broadcasts from other services. In the case of online video streaming services, the application of a substantial audience criteria is suggested, to assess whether the performance is „public”.⁵³ The important point in the analysis is the question whether the *Cablevision* ruling should affect online technology or new technologies and new services.⁵⁴ On the one hand, it has been pointed out that the U.S. caselaw could encourage copyright avoiding business models⁵⁵ and that it has demonstrated how some services which were copyright infringing might be re-engineered⁵⁶. On the other hand, the *Cablevision* ruling was found to provide the legal cover for cloud computing processes.⁵⁷ Finding the right balance between emerging new services, the benefits of the consumers and the justified interests of copyright holders is not only a concern in the U.S.⁵⁸ The Second Circuit’s ruling in *Aereo* was supported in view of the underlying economics. It led G.S.Lunney Jr. to advocating that the difference from the legal (copyright) point of view should be drawn between intermediaries with and those without market power, taking into account the differences in the transmission method, whether they are operating through their own network or providing services over the Internet, with the assumption of non-discrimination between the service providers.⁵⁹ One point mentioned is that consumers might be paying twice, and the other recurring aspect is the consumers’ interest in the access to audiovisual content that is unbundled⁶⁰, which leads to „cord-cutting”⁶¹ and seeking independence from cable companies, at least in the U.S. market. These reasons prompted many entities and organizations to file amicus briefs.⁶² As mentioned above the U.S. Supreme Court did not disregard the problem of impact on new technologies, but neither has it dealt with it.

21 Interestingly, noting the impasses in considerations before the Supreme Court ruling, R.Giblin and J.C.Ginsburg state that focusing not on technology but on the „public” to which these services communicate copyrighted content may be a way out of the impasses.⁶³ They both take the use of copyrighted content in the hotel rooms as starting point but arrived at different conclusions. In the U.S. the case discussed by the authors did not concern putting radio or TV equipment in the hotel room, as in the

SGAE, but an on-demand electronic transmission of the videos.⁶⁴ Based on this case the commercial relation between the sender and the recipient was highlighted to assess whether the transmission was to the public. J.C.Ginsburg proposes a way forward by accepting the view that the transmissions of the work to the paying public, wherever and whenever the members of the public receive them, are public performances. In that case payment is understood in a broader sense than simply as the fee for the service. In order to differentiate (some) cloud-based services, the question on what the public is paying for should be answered.⁶⁵ Are they paying for simple storage of content and playback opportunities or for receiving the performances of copyrighted works as in the Aereo case? J.C.Ginsburg however notes the hybrid services and points out that the suggested approach would not disaggregate the initial content delivery and subsequent playback,⁶⁶ which may be understood that in cases where the service provider does not differentiate what kind of content is being played back (particularly in price), it would fall out of the public performance scope. In the U.S. Supreme Court's opinion in Aereo, in relation to the impact on other technologies, we find the summary of the position taken: „the public” apply to a group of individuals acting as ordinary members of the public who pay primarily to watch broadcast television programs (...) that does not extend to those who act as owners or possessors of the relevant product. The Court further stressed that it was not considered ...whether the public performance rights is infringed when the user of a service pays primarily for something other than the transmission of copyrighted works, such as the remote storage...⁶⁷ That leaves some room but also uncertainty for cloud service provider. In the opinion of J.C.Ginsburg, approach of broadly defining a „performer” is not without the shortcomings, but in many cases would suffice.⁶⁸

IV. Control over content

1. Categorizing audiovisual services

22 In the light of the possibilities created by the convergence of broadcast and Internet services it becomes extremely difficult to categorize emerging audiovisual services. It was noted that the Berne Convention was developed to respond to the growth of „push” models of communication and the Art. 8 of the WCT was developed to respond to the potential growth of „pull” services.⁶⁹ It is no longer enough to say that it covers Internet transmissions, as there is a growing number of new types of services enabling access to the video content. The concern that the distinction between pull and push exploitation is blurred has been voiced even before the expansion of the new type of television services.⁷⁰

23 In the regulatory sphere, the European Parliament has noted in its resolution on Commission's Green Paper on *Preparing for a Fully Converged in Audiovisual World* the role of a „content gateway” as an „entity which act as an intermediary between audiovisual content providers and end-users, and which typically brings together, selects and organizes a range of content providers and provides an interface through which users can discover and access that content”.⁷¹ These content gateways are not only TV platform providers but also manufacturers of devices in the case of connected television. From this perspective the distinction between physical facilities and services is also blurred.

24 The copyright problems have been recently discussed with respect to cloud TV recorders, with the combined problems of reproduction and the right of communication to the public⁷².

25 In the brief global overview of case law concerning cloud TV recorders it has been noted that two general models emerged: user initiated working as a remote digital video recorder (DVR) or a non-user initiated, where everything is recorded by the service provider. It was at the same time pointed out that technology and businesses develop rapidly and new services may not fall neatly in those categories.⁷³

26 In the overview of the national and the CJEU's case law on the public communication aspect of the services made in the *Brief Amici Curiae of Law Professors and Scholars* the aspect of making particular content available to all of its users in the on-demand services is emphasized as a key difference to the Aereo model.⁷⁴ In the German case on the online video recorders *shift.tv* and *save.tv* the BGH dealt with the issue whether the recordings of broadcasts are made by the users (*shift.tv*'s clients) or by the service provider. In the BGH ruling in 2009 the court differentiated between the situation where the service provider is recording and therefore violating §87(1) 2 UrhG⁷⁵ and where the users are recording. In the latter case it should be verified if the broadcasts are forwarded to the clients and in this way communicated to the public and in fact retransmitted.⁷⁶ This aspect of the case remained unclear after the ruling of the Court of Appeal in Dresden⁷⁷ and the BGH decided in its ruling in 2013 that there was a retransmission of broadcasts.⁷⁸

27 In case of the possibilities offered by cloud TV recorders the question to what extent the reproduction right applies is equally important.⁷⁹ In this article however the focus is on whether there was an unauthorized retransmission of broadcasts. The Court of Appeal in Dresden found no act of making available to the public as the service provider had transmitted the broadcasts to the individual clients and they were no longer in his „sphere of access” to be made available on demand.⁸⁰ In

simple words: the broadcasts were no longer in the broadcasters' sphere of control.⁸¹ The question that returns is where the dividing line between actually offering content or making the access possible and the „mere“ facilitation of access can be drawn. The latter was the issue raised by the defendants in the *Airfield* and *Aereo* cases.

2. Mere distributors or providers of technical facilities

- 28 In the Agreed Statement to Art. 8 WCT the parties have concluded that *mere provision of physical facilities for enabling or making the communication does not in itself amount to the communication to the public*. It was further explained that the Agreed Statement should serve to clarify the issue of liability of service and access providers in digital networks, particularly the Internet. The Agreed Statement is read as merely confirming that what is not covered by the right of communication to the public may not result in a direct liability.⁸² It was found that *Aereo* was doing more than merely providing physical facilities- in this case remotely operating tiny antennas, although judge Scalia in his dissent argued that *Aereo* cannot be found directly liable.⁸³ What is interesting from this perspective is - as reported by the press - that after *Aereo* suspended its operation following the Supreme Court's ruling, services offering hardware which allows the same operations, like watching television on mobile devices, became more active.⁸⁴
- 29 In EU law an analogous explanation to that included in the Agreed Statement is found in the recital 27 of the Information Society Directive: „the mere provision of facilities for enabling or making a communication, does not in itself amount to communication within the meaning of this directive“. In the case of hotel rooms the Court pointed out that the distribution of signals to hotel rooms was not just a technical means to improve or ensure the reception in the catchment area but that the hotel owner carries an act of communication⁸⁵. In the case of the public house owner in the *Premier League* case, the Court invoked SGAE ruling, and found that he „intentionally gives the customers present in the establishment access to broadcast“⁸⁶, and therefore, was also communicating to the public. In the *TVCatchup* the Court summarized its case law, stressing that the intervention of such technical means must be limited to maintaining or improving the quality of the reception of a pre-existing transmission and cannot be used for any other transmissions.⁸⁷ The *TVCatchup*'s intervention was not aimed at improving the quality of reception. This approach certainly focuses more on the nature of the services, than on the technical aspects.
- 30 There is no identical provision in the Cable and Satellite Directive, yet the act of the communication

to the public is defined as „the act of introducing, under the control and responsibility of the broadcasting organization, the program-carrying signals intended for reception by the public into an uninterrupted chain of communication leading to the satellite and down towards the earth“⁸⁸. It follows that if there is an interruption in the chain of communication, the act cannot be treated as a single act of communication to the public. It is therefore explained that normal technical procedures relating to the program-carrying signals should not be considered as interruptions of the chain of broadcasting⁸⁹. There is no reference to physical facilities but the scope of this solution is limited to satellite broadcasting. Although the AG Jääskinen argued that the operations of *Airfield* clearly broke the chain of communication⁹⁰ the Court found that all the conditions set in Art. 1(2) (a) and (c) are satisfied - and among others - *Airfield*'s interventions fall within the customary technical activities of preparing the signals for their introduction into satellite communication uplink and do not break the chain of communication.⁹¹ One of the most interesting aspects of this case is that the Court also found that the activities of a satellite package provider should not be confused with the mere provision of technical facilities in order to ensure or improve reception. Therefore, the satellite package provider is required to obtain authorization⁹² even though the provisions of the Cable and Satellite Directive indicate the sole responsibility of the initial broadcaster for the act of communication. The *Airfield* ruling seems inconsistent at that point. Even though there is a reference to digital networks in the WCT Treaty the Agreed Statement and recital 27 of the Information Society Directive's scopes are limited to physical facilities. Further the Court stressed that the facilities must serve the reception of broadcasts. As such it offers little help in the delineating the activity of those communicating to the public and offering services that do not require authorization of right holders.

3. Elsewhere in the EU and the U.S. law.

- 31 Intermediary service providers are of course secured by the safe harbor provisions in the e-commerce directive under EU law⁹³. Designed specifically for information society services these provisions should provide the adequate framework for the development of new services, including cloud based services. However, the question of the „control over content“ returns here as well. One of the condition for the exemption of liability for hosting providers, is that the provider the provider does not have actual knowledge of illegal activity or information and, as regards claims for damages, is not aware of facts or circumstances from which the illegal activity or information is apparent. The CJEU's interpretation of

this provision in *L'Oreal v eBay*⁹⁴ case is that Art. 14 of the e-commerce Directive does not apply when the hosting provider *plays an active role of such a kind as to give it knowledge of, or control over* the data provided by the consumers. In the recent French case *TF1 v Dailymotion* on the liability of the video-sharing platform provider the Paris Court of Appeal agreed that Dailymotion plays a double role – with relation to some content the provider is an editor and thus could not claim the liability exemption and with relation to content posted by user it is just a host provider⁹⁵ and thus have no „control over content”. Referring to the aspect of “volition”, J.C.Ginsburg differentiates between the situation where there is a possibility of applying safe harbors and the requirement that each transmission manifest specific intent to deliver particular content.⁹⁶ It may be understood, that this approach would be too narrow; yet the delineation problem remains.

- 32 The problem of who has the control over content in the audiovisual on-demand services may also be discussed in light of the provisions of the Audiovisual Media Services Directive.⁹⁷ The provider of a service is an audiovisual media service provider only if he exercises the “editorial responsibility” which means the “effective control” over both the selection of the programs and over their organization.⁹⁸ The problems with allocating the “editorial responsibility” may be illustrated by the UK example of the decisions of Ofcom – the regulator in the field of audiovisual services. In the case of Nickelodeon and others, it was found that in case where Nickelodeon content could be found on the Virgin Media platform, it was the Nickelodeon UK that had editorial responsibility – as was also indicated in the contract with the platform operator.⁹⁹ In the case of BBC Worldwide content on the Mediaset platform, it was the Mediaset platform operator that was found to have editorial responsibility and therefore has to be seen as the audiovisual media service provider.¹⁰⁰ In these cases the detailed aspects of the contractual provisions and the actual relations and tasks of the content and service providers have been considered. It depends on the circumstances of the case whether it is the platform operator or the provider of the channels/content that has editorial responsibility, as they may be both engaged in taking “editorial decisions”.¹⁰¹ Apart from the focus on the contractual provisions and the thorough analysis of the activities of the parties there is no magic spell that can be used to determine who has the “control over content”. The abovementioned decisions demonstrate the complexity of these relations.

D. Conclusion

- 33 The case law in the EU and the U.S. Supreme Court ruling in the *Aereo* case have so far focused on the

issue of the retransmission and public performance as forms of communication to the public and did not elaborate further on the aspects of recording and subsequent streaming, or otherwise communicating to the public.¹⁰² The CJEU did not have the occasion to consider, e.g., the cloud based personal video recorders as a complex service. It may thus be the beginning of the considerations in the field of audiovisual content services, particularly those based on the cloud technology. One notable aspect is the differentiation between those acting within the sphere of copyright and those preserving the status of simple intermediaries¹⁰³. Despite the aim of the Agreed Statement to Art. 8 WCT the issue is not clear and obvious. In the EU the solutions in the area of satellite transmission could theoretically serve as a starting point for the discussion; with respect however to the particularities of Internet communication. The interpretation of the provisions of the Cable and Satellite Directive is complicated by the introduction of the analysis on the “new audiovisual product” and the “new public”. If the first basic question is: is there a communication to the public? The second could be: under whose control does the communication occur?¹⁰⁴ The approach indicating that it is worth considering if there is a “new audiovisual product” should not be disregarded but does not solve the problem in itself. The *TVCatchup* case is not a milestone or a breakthrough in the EU law since its relevance may depend on the existing legal solutions which vary in the Member States. If *TVCatchup* is read together with the *Svensson* ruling, the contours of “making the access possible” for the public are no longer clear; if they ever were. Though the problem of when exactly the new audiovisual services providers may be found liable for copyright infringement is only partly visible in the *TVCatchup* case, it is growing in the maze of the CJEU rulings.

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- 2 Judgment of the Court of 07.03.2013 *ITV Broadcasting and others v TVCatchup*, C-607/11.
- 3 *American Broadcasting Companies, Inc., et al., Petitioners v. Aereo, Inc., FKA Bamboom Labs, Inc. On Writ of Certiorari to the United States Court Of Appeals For the Second Circuit*, 573 U.S. (2014) p.2-3. http://www.supremecourt.gov/opinions/13pdf/13-461_1537.pdf.
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- 5 Further on the issue: K.Klafkowska-Waśniowska *Right of communication to the public: Towards Full Harmonisation?* [2013] E.I.P.R. p. 751-758.
- 6 Directive 2001/29/EC of the European Parliament and the Council, of 22 May 2001, on the harmonization of certain aspects of copyright and related rights in the Information Society, [2001] O.J. L 167,10-19.

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- 14 Judgment of the Court of 13.02.2014, Nils Svensson, *Sten Sjögren, M.Sahlman,P.Giad, v Retriever Sverige AB*. C-466/12.
- 15 Judgment of the Court of 7.12.2006 *Sociedad General de Autores y Editores de España (SGAE) v Rafael Hoteles SA* C-306/05, [2006] E.C.R.I-11519; Judgement of the Court of 04.10.2011, in cases *Football Association Premier League Ltd. i inni, p.Q.C.Leisure and others, C-403/08* and *Karen Murphy v. Media Protection Services C-429/08*. E.C.R. [2011] I-09083; Judgment of the Court of 24.11.2011 in case C-283/10 *Circul Globus Bucuresti v Uniunea Compozitorilor si Muzicologilor din România - Asociatia pentru Drepturi de Autor (UCMR - ADA)*.
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- 18 SGAE at 42.
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- 20 Judgment of the Court of 13.10.2011. *Airfield NV and Canal Digitaal BV v Belgische Vereniging van Auteurs, Componisten en Uitgevers CVBA (Sabam)* C-431/09 and *Airfield NV v Agicoa Belgium BVBA* C-432/09. Airfield at 39-40, S.Vousden, *Airfield, Intermediaries and the Rescue of EU Copyright Law*. Intellectual Property Quarterly, 4/2012, p. 317,<http://eulawradar.com/wp-content/uploads/2013/01/2012-Intellectual-Property-Quarterly-311-325.pdf>.
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- 25 *Fox Television Stations, Inc., et al. v. BarryDriller Content Systems, PLC, et al.* No. CV 12-6921-GW(JCx), 2012.
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- 31 R.Giblin, J.C.Ginsburg *We need to talk about Aereo: Copyright Avoiding Business Models...*p.5.
- 32 *Cartoon Network LP v. CSC Holdings, Inc.*, 536 F.3d 121 (2d Cir. 2008).
- 33 D.Cassorla points that broadcasters expected legal easy victories with Aereo and FilmOn, but were blockaded by the Cablevision decision. *Copyright Cowboys...* p. 785.
- 34 *Cartoon Network LP v. CSC Holdings, Inc.*, 536 F.3d 121 (2d Cir. 2008), p. 138.
- 35 R.Giblin, J.C.Ginsburg *We need to talk about Aereo: Copyright Avoiding Business Models...*p.12.
- 36 *American Broadcasting Cos. V. Aereo, Inc.* 573 U.S._(2014) at II, p.4.
- 37 *American Broadcasting Cos. V. Aereo, Inc.* 573 U.S._(2014) p.12
- 38 *American Broadcasting Cos. V. Aereo, Inc.* 573 U.S._(2014) p.16.
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- 41 *Association Littéraire et Artistique Internationale*, <http://www.alai.org/en/resolutions-and-positions.html>
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- 44 Svensson at 20.
- 45 Svensson at 24-25.
- 46 SGAE at 41.
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- 58 See for example, M.Senftleben, *Breathing Space for Cloud-based Business Models. Exploring the Matrix of Copyright Limitations, Safe Harbours and Injunctions*, JIPITEC no 4/2013, pp.87-103.
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