The Digital Scrapyard

*An Examination of the Applicability of Copyright Exhaustion on Software License Agreements*

JURM02 Graduate Thesis

European Business Law
30 higher education credits

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Term: Spring 2013
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Summary

This thesis illustrates the increasing legal effects on copyright by the modern digital environment. In particular, the principle of copyright exhaustion, the exception to an author’s exclusive right to distribute his or her work, has been targeted with a novel interpretation. The principle ensures that when a right holder puts his/her copyrighted work on the market for sale, the distribution right is exhausted, meaning that the copy can no longer be controlled by the author. Traditionally, no application of exhaustion has been possible on intangible works since the principle has been regarded to only cover physical copies which are sold and not licensed.

However, with the recent case of *UsedSoft*, the CJEU has ruled that the principle of exhaustion can apply on computer programs, or software. The CJEU held that if license is in fact a transfer of ownership in return for a lump sum, that license should be regarded as sold. Furthermore, the CJEU stated that such transfer of ownership will transform an act of communication into an act of distribution. Since nothing in the Software Directive precluded the application of distribution onto intangible copies, the principle of exhaustion was extended to include downloaded copies of computer programs.

The novel interpretation of the CJEU creates a dichotomy with the US jurisdiction, since the latter has moved towards greater enforcement of the rights of an author. Contrary to the CJEU, the US courts have concluded that it depends on the content of the clauses in the license agreement if the license is a sale or not. Furthermore, with the recent, still ongoing, case of *ReDigi*, the US courts has refused to accept an extended application of exhaustion on digital transfers, since such a transmission involves the creation of new copies, which will infringe an author’s exclusive right of reproduction.

Looking into the case law, the European stance is emerging as more preferable than the US counterpart, as long as the licenses in question are transfers of ownership and therefore are actually sold. An unsolved question is the theoretical application of exhaustion on other digital works such as music. However, this thesis suggests that the extended copyright exhaustion created by the CJEU will be applicable on those works.

Making used software legitimate for reselling will have effects on legislation, right holders and purchasers. Although uncertainties remain regarding the requirement of rendering the copy unusable before resale, the *UsedSoft* case has considerable potential to re-shape the current business model in force by software proprietors. Future case law will bring more clarification to this new market.
Sammanfattning

Denna uppsats belyser de ökande rättsverkningarna det digitala samhället har på upphovsrätten. Framför allt har principen om konsumtion av upphovsrätt, ett undantag på en författares ensamrätt att sprida sitt arbete, erhållit en ny tolkning. Principen innebär att när en rättighetshavare placerar dennes upphovsrättsskyddade verk på marknaden till försäljning, är spridningsrätten konsumerad, vilket innebär att kopian inte längre kan kontrolleras av skaparen. Traditionellt sett har ingen tillämpning av konsumtion varit möjligt på digita varor, eftersom principen har ansetts endast omfatta fysiska kopior som säljs och inte licensieras.

EU-domstolen har emellertid slagit fast i det banbrytande rättsfallet UsedSoft att principen om konsumtion kan tillämpas på datorprogram eller programvara. EU-domstolen konstaterade att om en licens i själva verket är en överlåtelse av äganderätten i utbyte mot ett engångsbelopp, bör detta tillstånd räknas som en försäljning. Vidare ansåg EU-domstolen att en sådan överlåtelse kommer att förvandla en överföringsrätt till allmänheten till en spridningsrätt. Eftersom ingenting i mjukvarudirektivet hindrar en tillämpning av spridningsrätt på immateriella kopior, kunde principen om konsumtion utvidgas till att omfatta nedladdade exemplar av datorprogram.

Denna tolkning av EU-domstolen skapar en dikotomi med USA:s jurisdiktion, eftersom den senare har rört sig mot ett ökat skydd av rättigheterna för en upphovsrättssinnehavare. De amerikanska domstolarna har, i motsats till EU-domstolen, dragit slutsatsen att det beror på klausulernas innehåll i licensavtalet om licensen kan räknas som en försäljning eller inte. Dessutom, med den senaste, fortfarande pågående, rättsfallet ReDigi, har de amerikanska domstolarna vägrat att godta en utökad tillämpning av konsumtion på digita överföringar, eftersom en sådan överföring innebär skapandet av nya exemplar, som kommer att bryta en författares ensamrätt till mångfaldigande.

Via rättspraxis framstår det europeiska ställningstagandet som mer lämpligt än den amerikanska motsvarigheten. Så länge licenserna i fråga är ägarbyten och därmed faktiskt säljs, kan konsumtion appliceras. En olost fråga är den teoretiska tillämpningen av konsumtion på andra digitala verk som musik. Emellertid föreslår denna uppsats att den utvidgade principen om konsumtion av upphovsrätten kommer att vara tillämpliga på dessa arbeten.

Att använd programvara legitimt kan vara föremål för återförsäljning kommer att påverka lagstiftning, rättighetssinnehavaren och köparen. Även om osäkerheten kvarstår angående kravet på att göra kopian oanvändbart före återförsäljning, har UsedSoft-fallet en avsevärd potential i att totalt förändra den nuvarande affärsmodellen för mjukvara. Framtida rättspraxis från EU-domstolen kommer att leverera fler klargöranden på denna nya marknad.
Preface

So it has come at last, the end of my academic education. It is remarkable how fast five years has passed. During this time I have met fantastic people and experienced elated events, which all will be the target of my appreciation.

First of all, I would like to deeply thank my supervisor Ulf Maunsbach, not only for his patience, his ability to raise faith in you and provide helpful guidance in complex areas, but also for making me to become interested in IPR above all. Thank you.

I also would like to thank my family for always invaluable support regardless of harsh or merry times.

Finally, my brothers-in-arms shall have the greatest of thanks for making the years in Lund a blast. Thank you Anton, David, Linus, Jonas, Martin and Oliver.

*This end have I reached before. What new adventure lies in store?*
## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AG</td>
<td>Advocate General</td>
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<tr>
<td>CJEU</td>
<td>The Court of Justice of the European Union</td>
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<tr>
<td>DRM</td>
<td>Digital Rights Management</td>
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<tr>
<td>EU</td>
<td>The European Union</td>
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<tr>
<td>EULA</td>
<td>End-User License Agreement</td>
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<tr>
<td>IPR</td>
<td>Intellectual Property Rights</td>
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<tr>
<td>RAM</td>
<td>Random Access Memory</td>
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<tr>
<td>US</td>
<td>United States of America</td>
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<tr>
<td>WCT</td>
<td>WIPO Copyright Treaty</td>
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<tr>
<td>WIPO</td>
<td>World Intellectual Property Organization</td>
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<tr>
<td>WPPT</td>
<td>WIPO Performances and Phonograms Treaty</td>
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1. Introduction

1.1 Background

To purchase a pair of worn Nike shoes in a second-hand shop is not a peculiar thing today. Proprietors cannot prevent this conduct, as goods placed upon the European market will fall under the principle of exhaustion, which means that right holders cannot rely on their exclusive rights granted by IPR. However, in a digital context, different rules apply. Digital distribution not only limits the expenses of a right holder, as physical wholesalers are not needed, it additionally severely restricts the costumer from reselling the digital product with Digital Rights Management (DRM) and End-User License Agreement (EULA). The vast majority of the proprietors doing business on the digital market employ licensing agreements, as it has become the standard solution when trading with digital copyrighted works, and several are using DRM as a further protection.

Digital literature (‘e-books’), computer games and music files are examples of said works in an area with rapid increase in terms of economical importance. Thus, unsurprisingly, new and innovative enterprises have emerged in order to benefit from the lucrative digital market. Companies, such as ReDigi and UsedSoft, have launched services were the customers are able to purchase ‘used’ or ‘pre-sold’ software, i.e. digital products that have been sold and used in advance. These companies are essentially performing the similar service of a second-hand store, with one exception; the reproduction of copies, which is a consequence of using on-line distribution. Whereas the second-hand service of physical goods is of no legal controversy, the businesses of ReDigi and UsedSoft have created a vast number of legal activities, especially from the proprietors in attempts to prohibit said services.

The novel concept of reselling digital files underlines the difficulties imposed upon copyright law in a digital context, the principal problem is to define the status of the software licenses. As the industry has used license agreements to avoid activating the rules of copyright exhaustion, the

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1 Technical solutions to prevent anti-circumvention of the exclusive rights granted by copyright.
2 EULA will be further discussed in chapter 2.
5 E.g., the British music industry noted as of 2012, digital sales of music have surpassed physical sales of CDs and records for the first time. Sweney, Mark, ‘Digital music spending greater than sales of CDs and records for the first time’ The Guardian, 31 May 2012 [http://www.guardian.co.uk/media/2012/may/31/digital-music-spending-bpi](http://www.guardian.co.uk/media/2012/may/31/digital-music-spending-bpi), (last visited on 23 May 2013).
The conduct of second-hand digital files is problematic indeed. Who is the owner of these resold files? Is it possible to protect the conduct under the current legislation? One question is if the conduct of preventing the reselling of digital files enables proprietors to protect themselves against copyright infringement and piracy or if it is in fact impairing the principle of exhaustion and as such the Internal Market. Furthermore, the possible intersection of private contract law and competition law are additional troublesome factors in the matter. Consequently, a thorough examination is needed.

1.2 Purpose

The purpose of this paper, with regards to the novel nature of the subject, is to determine the practical impact of copyright exhaustion on transmission of digital works, especially computer programs. The thesis aims to clarify the area of law, and to evaluate the legal status of resold digital files. Furthermore, the purpose is to illustrate the legal rationale of second-hand sales of digital files, and to review the current standings of the Court. While examining the matter, focus will first be on the definition of software transmission, whether the applied license agreements precludes any other interpretation than ‘license’ of the contractual relationship between a right holder and a user. Furthermore, the paper aims to examine whether the principle of exhaustion, traditionally applied to physical goods also may include digital works. Depending on the result, the consequences will additionally be asserted. Finally, the thesis will try to evaluate the findings and provide the reader with a legal stance of its own.

1.3 Method and material

The foundation of this thesis will be European copyright law, more specifically copyright law that includes intangible goods, and case law of the Union Courts. Given the scarce status of case law in the EU, US case law and doctrine will additionally be noted when examining copyright exhaustion on digital transmissions, especially with the subject of digital second-hand sales, as the concept has been more examined overseas. It is not within the scope of this thesis to do a comparative study with the US legal system; however, analogies will be made, and one chapter will illustrate exhaustion in the US. Furthermore, international copyright treaties will be of additional value. The dominating method will be a traditional legal dogmatic examination of copyright and digital files. Hence, the paper will mainly consist of an evaluation of the different sources of law.

Regarding doctrine, there is not an overwhelming amount of material, with the primary explanation being the novelty subject. However, this means that the existing material is recent. Furthermore, when assessing the doctrine, consideration must be made to whether the arguments and information provided are stemming from a de lege ferenda or de lege lata perspective. These perspectives will also be used in this thesis when discussing the findings.
Finally, information and inspiration will be gathered from other sources of information related to the subject, such as newspaper articles and official information, e.g. statistics from EU institutions. When asserting sources other than legal doctrine, legislation and case law, a careful stance of criticism must be taken towards some, as they may deliver merely subjective opinions.

1.4 Delimitation

The concept of second-hand sales of digital files is rather broad. The focus will be on software, or computer programs and the clash with copyright law and the exhaustion rule. The potential application on other intangible digital goods such as music, films and e-books will additionally be analyzed. Ergo, the thesis will analyze the possible copyright exhaustion when reselling software with an examination of the appropriate provisions in the InfoSoc Directive and Software Directive. As such, the thesis will not examine national legislation. Other aspects of IPR, such as trademark law, will not be regarded, along with other legal areas and perspectives, such as competition law and human rights, although they may be noted in the discussion chapter. Regarding license agreements, only proprietary licenses will be examined. Hence, free and open source licenses are not the target of legal actions within the interest of this paper, and will not be additionally addressed. Additionally, the discussion of DRM, and its relationship with the right to free use cannot be examined in this thesis, since the sole illustration of it could cover a thesis on its own. Finally, the reader should be aware of the intricate technologic nature of this subject, and should have acquired basic knowledge in advance, as this thesis will not include such parts.

1.5 Terminology

Due to the digital dimension of the subject, several technical notions will be included in the thesis. These are, together with emphasizes, Latin concepts and other linguistic constructs, in Italics. An observant reader will notice that this paper follows American English instead of British. Since this paper extensively contains licenses, British English was neglected in order to avoid confusion, as both ‘licence’ and ‘license’ can be used in British English.

1.6 Outline

Introducing the issues of the reselling of digital files, chapter two will provide the reader with fundamental knowledge regarding the business models of e-commerce and the common techniques in force to prevent further reselling of digital files. This knowledge, although descriptive in its nature, is necessary in order to assess the implications at hand.

The third chapter will primary consists of the relevant EU legislation applicable to the matter. Underlying international treaties, such as the WIPO
Copyright Treaties, will additionally aid to outline a firm basis imperative to this thesis.

The fourth chapter will describe the relevant EU case law and the AG opinions of some of those cases.

The fifth chapter will include a basic illustration of US legislation and the case law development of software license agreement in relation to copyright law.

The sixth chapter will be an analysis and a discussion, examining the issues provided, primarily based on case law from both the EU and the US jurisdiction. Furthermore, legal doctrine will be applied, enhancing this chapter.

The final chapter will summarize the thesis with a conclusion of the subject at hand.
2. The basics of Software License Agreements

2.1 Introduction

Before venturing into the legal concept of copyright exhaustion, the fundamentals of a software license agreement will be illustrated, in order to provide the reader of basic understanding regarding how software is regulated and sold through contracts.

As mentioned previously, digital copyrighted works can exist in several forms and media, inasmuch as the most common types are e-books, computer or video games, films and music. Though they may all exist in physical versions, the common denominator within the concept of ‘digital’ is the fact that they are computer programs, or software. One of the issues that arise when dealing with digital copyrighted works is the fact that the works are capable of existing in both physical and digital forms. Purchasing a physical medium, such as a CD, with the desirable software in a physical store includes digital elements, although not pure digital purchases per se. The transactions include physical copies in physical stores; or the CD. As the technical improvements of the Internet and the speed of broadband connectivity have steadily risen, a large amount of sales of digital products is today purely digital. E.g. one user purchases a code online, which enables said person to download software from a home page, whereas another purchases a digital music file from services such as iTunes.

As mentioned in 1.1, the combination of increasing digital sales and fear of software piracy has resulted in different solutions from the proprietors in order to restrict the user’s capabilities of management over the work in question. Software license agreements are common and less controversial, although their legal status may be questioned, while the DRM technology has been the target of much criticism.

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7 Janusz Piotr Kolczynski, ‘Exhaustion of copyright of computer software online: a European (Polish, German, Austrian) and US perspective’ (2011) 33 EIPR 578, 579.
8 Stokes (n 5) 24-25.
9 ibid 22-23.
10 See Sweney (n 4) and the article about digital sales of music.
11 Online services licensing software are indeed common today, for instance is the company Oracle (claimant in the UsedSoft case (n 90 ) out-licensing business software.
12 See chapter 6.
2.2 The common categories of Software License Agreements

Software license agreements are contractual methods for proprietors to stipulate the exact use of their software. Being creations of private contract law, the license agreements are in general enforceable although resting upon several conditions laid down by the national legal system. As a right holder is free to stipulate the provisions, a license agreement should not only be regarded as a restriction of the end-users ability to use a work, but also as a method for the right holder to permit copyright infringing use.\(^\text{13}\) It must also be noted that while the agreement might be considered void, certain clauses may still be enforceable.\(^\text{14}\)

Two different categories of software license agreements exist: proprietary software licenses and free and open source software licenses, where the former group restricts the use, the latter generally offers unlimited use.\(^\text{15}\) Proprietary software licenses consist of agreements, generally labeled as end-user license agreements, where the right holder has retained ownership over the licensed software through contract, thus the term ‘proprietary’.\(^\text{16}\) An acceptance from the end user is required in order to gain access to the contracted software. Depending on the type of technology and contract, the acceptance of an EULA may vary.\(^\text{17}\) Given the digital context, most EULA’s are not expressly written contractual licenses mutually negotiated and are instead contracts of adhesion, appearing in several different models such as shrink-wrap, click-wrap and browse-wrap licenses.\(^\text{18}\)

Shrink-wrap licenses are physical contracts included in the package containing the software, purchased in physical stores. A user will agree to a shrink-wrap license by removing a seal, usually transparent plastic, with a warning text encasing e.g. a CD or another physical storage medium containing the software.\(^\text{19}\) The legality of this type of license agreement has been debated, as the actual physical purchase may be regarded as the principal contract, due to the fact that the user has no knowledge of the imbedded terms of the shrink-wrap license.\(^\text{20}\) In the US, shrink-wrap license agreements have been considered enforceable through case law\(^\text{21}\) whereas

\(^{13}\) Stokes (n 5) 125.
\(^{18}\) Stokes (n 5) 126-27.
\(^{19}\) ibid 126.
\(^{20}\) ibid.
\(^{21}\) ProCD, Inc. v. Zeidenberg, 86 F.3d 1447.
the EU has the Unfair Contract Terms Directive 93/13/EEC. A European shrink-wrap license contract must i.e. fulfill the requirements of the contract law of the Member States, and since a user adheres to a contract without knowing the specific details, the contract can be the target of legal action. However, the shrink-wrap license *per se* should be considered as enforceable.

Whereas shrink-wrap licenses are only provided with physical copies of software, click-wrap licenses can exist in both physical and digital copies. These licenses appear as messages on the computer screen when a user is installing the software, stating that the product is unavailable unless the user accepts the terms and conditions of the click-wrap license by clicking e.g. ‘YES’ or ‘I ACCEPT’. When included in a physical product, the click-wrap license is similar to a shrink-wrap one, as the user is not aware of the specific terms and conditions at the time of the physical purchase. Regarding digital purchases and downloads, the click-wrap license is utilized as the standard EULA, and the enforceability is not clear. In the US, some cases have confirmed the agreements as binding, while in the EU the validity is the subject of the contract law of the Member States.

Finally, a third category of software license agreements is the browse-wrap, where the user is notified about the license agreement when visiting a webpage and before downloading the desirable software. However, there is no element of assent as with click-wrap agreements. Thus, the enforceability of browse-wrap license agreements is weak.

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23 The Commission has also stated that ‘Nor is it entirely clear whether the practice of so-called “shrink-wrap licensing” where use conditions are attached to the user, constitute a valid licence in all circumstances and in all jurisdiction’. Proposal for a Council Directive on the legal protection of computer programs. COM (88) 816 final, 17 March 1989, para 3.3.

24 Stokes (n 5) 126-27.

25 ibid.


27 Stokes (n 5) 127.

28 ibid.
3. The legal rationale of exhaustion of Copyright in the EU

3.1 Introduction


3.2 The principle of exhaustion

Within the Community the protection of the free movement of goods is fundamental, which is upheld through the creation of the Internal Market. In order to ensure this borderless market, several *sui generis* were created, such as the exhaustion of rights. This concept, which is fundamental in IPR, consists of the scenario: as soon as a proprietor puts e.g. a copyright protected product on the market in a Member State, he or she is unable to restrict the resale of said product. The principle of exhaustion is not codified under primary EU law, instead it was introduced in the EU with the landmark case *Deutsche Grammophone*. A German undertaking, Deutsche Grammophone, was the proprietor of music records sold in France by a subsidiary Polydor. Polydor was forced to charge a lower price on the French market than on the German, due to different market conditions. Another company, Metro, purchased the records in France and resold them in Germany below the admitted price. Deutsche Grammophone attempted to prevent the conduct of Metro by claiming copyright infringement and that German law prohibited re-importation of copyright-protected products. The CJEU stated that:

> 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

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32 ibid paras 2-3.
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.\textsuperscript{33}

\textit{Ergo}, if a right holder, or someone with the consent of the right holder, markets products in one Member State, he or she cannot prevent those products from being resold in another Member State, as it would become an obstacle to the principle of free movement of goods. The principle of exhaustion applies to all tangible goods. Furthermore, the principle generally applies to the distribution of copyrighted work, although reproduction is still maintained under the exclusive rights of the author.\textsuperscript{34}

\textit{Ergo}, a customer is able to purchase a book and resell it, but is prevented from copying it and selling those copies. However, if said book would be an e-book, problems will emerge, as digital products are not regarded as tangible assets. Such issues, introduced through the digital technology advancement, forced a modernization of the traditional copyright created through the Berne Convention.

3.3 The Berne Convention

The Berne Convention for the Protection of Literary and Artistic Works is the international foundation of copyright protection since 1886. Revised in 1971, it grants the protection to all ‘literary and artistic works’, which is defined as ‘every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression’.\textsuperscript{35} Furthermore, it outlines the requirements for contracting states to ensure the exclusive rights of an author, such as the reproduction right and the broadcast right.\textsuperscript{36} However, the Berne Convention does not address neither exhaustion of rights nor right of distribution, hence; it does not prevent exhaustion of the distribution right. Additionally, exhaustion of the reproduction right may be in order, as long as it does not exceed normal exploitation of a work, whereas exhaustion of the right of communication to the public is not feasible.\textsuperscript{37} As the Berne Convention is generally regarded to be a non-self-executing treaty by the Union Member States, it needs implementation.\textsuperscript{38} Several treaties and legislative acts have codified the Berne Convention provisions, and in the EU the first, relevant to digital goods, was the Software Directive.

\textsuperscript{33} ibid para 13.
\textsuperscript{36} ibid Art. 9, 11bis.
3.4 Software Directive

3.4.1 Background

The principle of exhaustion was first codified in the Community in the Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs, which is now replaced by Directive of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs (‘Software Directive’). During the development of computer software in the 80’s, the Commission recognized that the legislative power regarding IPR had been left to the Member States and that the divergent result was a threat toward the Internal Market. Hence, the Commission stated in its 1985 White Paper that harmonizing computer software was of utmost priority in order to avoid the divergence and securing the Internal Market. Drafting on the Software Directive began with the 1988 Green Paper ‘Copyright and the Challenge of Technology - Copyright Issues Requiring Immediate Action’, where the Commission stated that software should be considered as literary works under the scope of the Berne Convention. However, software was to be regarded as a sui generis, due to its peculiar technical nature. For instance, ‘use’ per se in the common copyright regime did not create legal dilemmas, whereas defining ‘use’ was fundamental in the world of software.

The Commission continued with realizing that exhaustion of rights on a general copyright level was an example of discrepancy between Member States, although it came to the conclusion that ‘a broad distribution right and harmonization of exhaustion provisions do not appear to call for legislative initiatives at Community level at the present time’. Furthermore, the Commission addressed reproduction of software and the complicated relationship to ‘use’. As running software may include elements of copying, for example the temporary transfer into the computer memory, using a computer program for its purpose will include reproduction, and thus the Commission saw the need to define possible restriction of use of a computer program. The Commission stated that within the scope of a software license agreement, ‘authorized use’ must implicate reproduction necessary for the function of the software in question. However, the Commission continued with acknowledging that a licensor under copyright law could limit the use by reference to e.g. its purpose, to merely cover one computer. A licensee could otherwise gain a

39The changes that have been consolidated in the latest version of the Software Directive are minor amendments, hence throughout the rest of the paper ‘Software Directive’ shall refer to the version of 2009.
40Completing the Internal Market: White Paper from the Commission to the European Council, COM(85)310 final.
42ibid 190.
43ibid 146–48.
44ibid 166.
45ibid 190.
disproportionate profit, as a non-restricted reproduction right would entitle the user to spread numerous copies from one license.\textsuperscript{46}

The Commission also addressed the status of shrink-wrap license agreements and possible resale:

This kind of software is sold rather than licensed, although many suppliers try to maintain the character of a license agreement. Typical restrictions on the user provide that he is only allowed to use the program on one computer at a time and that he is authorized to pass on the licensed material to a third party under the condition that he does not retain a copy of it and no longer makes use of the software. This reflects the need for the supplier to impede the simultaneous use by more than one user of a program for which only one fee has been paid. On the other hand, the authorization to transfer the software to other parties pays tribute to the sales-like character of the marketing of this type of software and to the public interest in its free circulation.\textsuperscript{47}

The Commission did elaborate this further in the Proposal following the Green Paper, commenting on the relationship between software and contract law, due to the common practice of licensing agreements. Although license agreements enabled proprietors to restrict the use of the software, the Commission stated that in some instances the relationship between the proprietor and the costumer could be unequal, e.g. when the licensor enjoyed a strong market position. Thus, the Commission suggested that the Software Directive should provide for a basic protection regarding granting and limitation of exclusive rights, where the right holder must decide whether the distribution should be through sales or licensing.\textsuperscript{48}

3.4.2 Provisions

Under the Software Directive, all forms of computer programs are protected. This formulation is rather vague, especially in the contemporary digital society where different media can be regarded as software, and where they can be transfused with each other. However, the Infosoc Directive expressively excludes computer programs whereas music, films and books are represented.\textsuperscript{49} This has resulted in the general understanding that digital music, films and books do not fall under the scope of the Software Directive\textsuperscript{50}, a view that will be addressed further in chapter six.

\textsuperscript{46}ibid 191.
\textsuperscript{47}ibid.
\textsuperscript{50}[A]s regards exceptions, a large consensus exists that no exhaustion of rights occurs in respect of works and other subject matter exploited on-line, as this qualifies as a service’. The Follow up to the Green Paper on Copyright and related Rights in the information Society of November 20, 1996 Com (96) 568 final CH.2, Para 4.
As with other IPR legislation, the Software Directive grants exclusive rights to the right holder. This includes the ability to control the distribution and use of software. Regarding the doctrine of exhaustion, it is important to remember that the principle applies to the distribution and not the use. Use is however safeguarded by the Directive in order to permit legitimate use of the software without requiring additional licenses.\(^{51}\)

Art. 4(2) codifies the principle of exhaustion:

The 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.

In its Proposal of 1988, the Commission commented on the suggested articles. It acknowledged that the Berne Convention did not contain any specific rights to control the distribution, however, the exclusive right of controlling reproduction, given in 4(1)(a) in the Directive, enabled a right holder to control his/her work. The Commission stated that the ability of an author to control reproduction is fundamental in order to have a satisfactory computer program protection. However, given the functioning of computer programs where ordinary use of the software created copies, the exclusive right could be limited, see Article 5(1).\(^{52}\)

Regarding distribution and exhaustion, the Commission held in its Proposal that ‘rental, leasing and licensing’ should avoid being the target of exhaustion. The reason being that it was ‘essential to permit right holders to control the rental of programs which have been sold or licensed if copying of programs without authorization is to be prevented’. However, the principle of exhaustion, stated as ‘first sale’, should be applied as soon as a product had been sold with the consent of the right holder.\(^{53}\)

\textit{Ergo}, in some circumstances, especially regarding rental of software, the Commission held that the exhaustion doctrine should not apply, due to the fear of illegal copying. With that said, the exclusive rights given in Article 4 are limited in Article 5, in which the first paragraph contains the following:

1. In the absence of specific contractual provisions, the acts referred to in points (a) and (b) of Article 4(1) shall not require authorization by the rightholder 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.\(^{54}\)

The Article entitles the ‘lawful acquirer’ to use software within its purpose without requiring authorization from the right holder. The notion of ‘lawful


\(^{52}\)Software Proposal (n 48) 23-24.

\(^{53}\)ibid. 24.

\(^{54}\)Software Directive (n 50), Art. 5(1).
acquirer’ is not defined in the Directive, however, the Commission has stated that it should include ‘a purchaser, licensee, renter or a person authorised to use the program on behalf of one of the above’.  

In the Proposal, the Commission elaborated the discussion of license agreements and shrink-wrap agreements additionally as a method to justify limitations of software use. With the notion of ‘specific contractual provisions’, the Commission referred to expressively ‘written license agreements signed by both parties’. The term ‘licensed’ in the Directive was aimed towards the common comprehension of the concept, which were precisely defined provisions governed by contractual agreement. Shrink-wrap licenses did not fulfill this requirement, as customers were made aware of the terms after the actual purchase, arranged in a ‘take-it-or-leave-it’ contract. Thus the Commission drew the conclusion that a purchaser of software arranged as a shrink-wrap license could claim limitation of exclusive rights under Article 5(1), the reason being ‘a necessary compromise between the interests of suppliers and consumers of computer programs’.  

Before venturing further into the Software Directive and the applicable case law, the InfoSoc Directive must also be examined, in order to determine the relationship between the Directives and other digital files not considered software. As the Software Directive is lex specialis to the InfoSoc Directive, the general applicable doctrine of exhaustion will be found here. However, the WCT will first be briefly addressed.

3.5 WCT

The Berne Convention was not drafted to comply with the difficult copyright issues raised by the computing development process; hence WIPO issued meetings in the 90’s aimed to solve the matter. Two treaties, the WIPO Copyright Treaty (‘WCT’) and the WIPO Performances and Phonograms Treaty (‘WPPT’), were drafted and adopted in 1996. WCT deals with the application of copyright in a digital context, aimed by the legislators to control access to digital works. It was created alongside the WPPT, which deals with performers and producers of phonograms.  

Only expressions fall under the scope of the copyright protection in the WCT. Within this scope computer programs are also protected and are considered literary works regardless their technical form. Regarding the principle of exhaustion, art 6 WCT provides guidance:

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56 Software Proposal (n 48) 27.
59 ibid. Art. 4.
1. Authors 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.

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 work with the authorization of the author.

The distribution right provided in Art. 6 (1) is aimed to cover only tangible goods. Furthermore, regarding the principal of exhaustion, Art. 6 (2) states that the embracing parties to the Treaty are free to decide the implementation of the principle. However, transmission to the public could be applied to digital intangible products. The concept of transmission, ‘making available right’, is the expression of the creator’s exclusive right to spread his or her works to the public e.g. through communication, outlined in Art. 8 WCT. Ergo, making copies available to the public. The communication to the public was covered under the Berne Convention, this however dealt with physical public performances, and not the digital challenge.

The rather neutral characterization, neither defined as communication nor distribution, of the description of transmissions was the result of discussions in the preparatory work. During said discussion, it was found that major discrepancies existed in national law regarding the right to communicate and the right to distribute and no consensus could be reached as to which right prevails over the other. Added to this was the complicated nature of digital transmissions. Hence, it was decided that digital transmission should be described without specific legal characterization. This was left open to be decided in national legislation, and the solution was referred to as the ‘umbrella situation’. The solution could also deal with the fact that a transmission could be a hybrid of both communication and distribution, which many digital transmissions in fact are, with regards to temporary copies.

It is important to notice the difference between ‘distribution’ and ‘communication’ as regulated by the WCT, since no doctrine of exhaustion applies to ‘communication’. In order to examine the discrepancy between the concepts, the corresponding implementation act in the Community must be regarded. In the EU, the InfoSoc Directive was the result of said implementation of WCT and WPPT.

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60 Agreed statements concerning Articles 6 and 7 in WIPO Copyright Treaty (n 57): ‘As 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.’

61 Art. 8 WCT describes the communication as ‘[...] making available to the public of [...] works in such a way that members of the public may access these works from a place and at a time individually chosen by them’.

62 Ficsor (n 56), 146, 165-67.

63 ibid 225-232, 496-497, 628-630.

64 ibid. 499.
3.6 InfoSoc

The InfoSoc Directive regulates the copyright and related rights regarding the technological developments in the information society, and was created to enhance the harmonization of copyright in the internal market. Stemming from the treaties adopted by WIPO in 1996, the work to harmonize the field-of-law had already begun earlier in 1995 with the Green Paper launched by the Commission. However, only a lesser amount of the measures listed in this Paper was incorporated in the InfoSoc Directive, as the provisions provided by the WIPO Treaties had precedence. Regarding exhaustion and intangible goods, the sections containing the exclusive rights of distribution and transmission to the public are of main interest. These are stipulated in Article 3 and 4 of the Directive.

The principle of exhaustion is implemented under Article 4(2) Infosoc Directive. Comparing the exclusive rights of communication and distribution, exhaustion of rights seems to only target distribution, and additionally only tangible goods, as stated in the preamble to the Directive. Furthermore, recital 29 in the preamble gives guidance regarding transmission of intangible goods, categorizing it as an online service which is subject to authorization.

With the EU legislation illustrated, a couple of apparent questions have emerged. First of all, it is clear that the principle of exhaustion applies to tangible goods. Nevertheless, can the principle be applied to intangible goods such as digital files, or rather; does the notion of ‘distribution’ include on-line transmission? On the exclusive right of distribution, given in Article 4(1)(c) Software Directive, the notion of ‘any form’ of distribution suggests that digital distribution fall under the scope of the exclusive rights of a right holder. As such, that exclusive right of distribution could arguably be exhausted by the first sale in the Community.

On the other hand, the right of distribution in the Infosoc Directive does not cover intangible goods, and the Commission has expressively stated that exhaustion shall not be applicable on intangible goods.

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65 Mazziotti (n 28) 49-52.
66 See Supplement A.
67 Recital 28 InfoSoc Directive (n 48) states the following: ‘copyright protection under this Directive includes the exclusive right to control distribution of the work incorporated in a tangible article’.
68 ‘The question of exhaustion does not arise in the case of services and online 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 rightholder. 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 authorization where the copyright or related right so provides.’
69 ‘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’, Answer by Commissioner Monti to
Furthermore, another issue revolves around ownership and software, which is important when determining the relationship between sale and licensing. Also, as illustrated in chapter 3.2.2, a user could seek protection under the exceptions granted in Article 5 Software Directive. However, it is unclear whether this applies to third parties. Ergo, is used software ‘sold’ and may a purchaser of it be regarded as a lawful acquirer?

Therefore, the following issues need to be examined with case law and doctrine:

- The definition of the involved transmission in a software license agreement. Are computer programs sold or licensed?
- When can the copyright exhaustion apply to digital transmissions?
- How can a purchaser of a license be regarded as a lawful acquirer?
- Which effect will the above have on license agreements?
- May other digital products be included, such as music and films?
- Which consequences will the result have on the legal terrain?
- Is the result reasonable?

4. Case law

4.1 Coditel I

After the Deutsche Grammophone case, the CJEU judged a number of cases regarding tangible goods and the principle of exhaustion. However, in the beginning of the 1980’s, the CJEU addressed exhaustion and the exclusive right of communication to the public in the Coditel cases, where Coditel I is of main interest. In Coditel I, a French company made an exclusive license agreement regarding a film transmission with a Belgian company Ciné Vog. Additionally, the licensor had more license agreements with companies in other Member States, such as Germany. The German licensee did not have the same restricting provisions as Ciné Vog, which could not show the film until 40 months had passed after its opening in the cinemas. When the film was shown in German television, a Belgian television company, Coditel, managed to receive the signal from Germany and show the film on its cable channels. Ciné Vog filed for copyright infringement and violation of its exclusive license agreement, whereas Coditel claimed that the film was exhausted, as the original French licensor had shown the movie with consent.

Acknowledging the issue with intangible goods, the CJEU stated that Art. 56 of the Treaty of the Functioning of the European Union, which prohibited restrictions of the free movement of services, did not prevent a right holder to use national legislation in order to protect IPR, apart from circumstances where said application would create barriers between Member States. Examining the situation, the CJEU held that the conduct of granting merely one exclusive license agreement per Member State did not constitute trade barriers.

Regarding the possible exhaustion, the CJEU stated that it was necessary for a right holder to be able to prevent unauthorized communications to the public, as the possibilities for an author to profit from his/her work would otherwise be undermined. Hence the CJEU judged in favour for Ciné Vog, and created the view that exhaustion did not apply to intangible goods.

After Coditel I, the Community case law development has been in hiatus regarding the potential application of copyright exhaustion on digital works. However, the recent years have seen a few important judgments in the area, especially the Premier League and UsedSoft cases.

4.2 Premier League

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71 ibid paras 1-8.
72 ibid para 15.
73 ibid para 18.
4.2.1 Background

The joined cases C-403/08 and C-429/08, Football Association Premier League v QC Leisure YouTube and Karen Murphy v Media Protection Services Ltd concern questions regarding the free movement of intangible goods and exhaustion of rights. In the UK, BSkyB had the exclusive rights to broadcast Premier League football matches. However, pubs had purchased decoder cards from Greece enabling them to show said matches by using the broadcast from the Football Association Premier League licensed Greek company NOVA. These decoder cards were considerably cheaper compared to the equivalent British cards, although legitimate cards and not pirated. The FAPL filed complaints to UK courts, claiming that the use of Greek decoder cards were copyright infringements as ‘it undermined the exclusivity of the rights granted by license in a given territory and hence the value of those rights’, whereas the defendants claimed that preventing them from purchasing goods and services from another Member State would impair the Internal Market. The High Court of Justice stayed proceedings and referred several questions to the CJEU, of whom merely those concerning IPR and freedom of goods will be further illustrated.

4.2.1 AG opinion

In her opinion, AG Kokott addressed the protection of the Internal Market, stating that the contested freedom at hand was the freedom of services, as the goods in question, the Greek decoder cards, were not desired as such; it was the use of the cards or i.e. the service they provided that were the key. Furthermore, in her view, it was clear that the conduct of FAPL was impairing the freedom to provide services. The restriction needed to be justified in public interest in order to be acceptable. Citing Coditel, the AG held that protecting IPR could be a justification, if the protection fulfilled the subject-matter of the IPR in question. Regarding distribution of goods, when a right holder received payment from a sale, the principle of

\[\text{\footnotesize{\cite{74} Joined Cases C-403/08 and C-429/08 Football Association Premier League Ltd v QC Leisure [2011] ECR I-000.}}\]
\[\text{\footnotesize{\cite{75} ibid paras 39-42.}}\]
\[\text{\footnotesize{\cite{76} ibid paras 43-46.}}\]
\[\text{\footnotesize{\cite{77} ibid paras 54-55.}}\]
\[\text{\footnotesize{\cite{78} Cases C-403/08 and C-429/08 Football Association Premier League Ltd v QC Leisure [2011] ECR I-000 Opinion of Advocate General Kokott of 3 February 2011.}}\]
\[\text{\footnotesize{\cite{79} ibid para 175.}}\]
\[\text{\footnotesize{\cite{80} According to the Court, only restrictions that concern the specific subject matter of intellectual property could be admitted to curtail the free movement of goods. Case C-255/97 Pfeiffer [1999] ECR I-2835, paragraph 21.}}\]
exhaustion removes the ability to claim violation of the specific subject-matter.\textsuperscript{81}

However, as this case revolved around services, the AG contemplated over the possibility to extend the exhaustion doctrine to services. While observing that traditional services, such as receiving a haircut, could not be re-used \textit{per se} and thus not under the scope of the principle of exhaustion, AG Kokott held that a number of services in reality were very similar to goods. Intangible goods, for example software, e-books, films and music, could easily be passed on through i.e. download.\textsuperscript{82} According to the AG, the extensive use of different DRM technologies from right holders to prevent transfers of copyrighted works further consolidated that statement. By utilizing their exclusive rights on the digital market, the right holders created market partitioning, and also incentives for customers to illegally get the restricted items. AG Kokott continued by examining the subject-matter, or whether the protection of broadcasts in the Community required a partitioned market, in order to find justifications.\textsuperscript{83} She argued that FAPL could not invoke the \textit{Coditel I} case, as the latter concerned different segments of services\textsuperscript{84}, whereas \textit{‘the partitioning of the internal market for live football transmissions is precisely not intended to protect any other form of exploitation of the transmitted football match’}.\textsuperscript{85} With that said, AG Kokott held that the deciding factor when analyzing the subject-matter was the commercial exploitation. Since FAPL received remuneration through selling decoder cards, albeit with different prices in different Member States\textsuperscript{86}, that commercial exploitation was fulfilled. Hence, the AG concluded that a partitioning of the Internal Market cannot be justified in order to safeguard the rights to football broadcasts.\textsuperscript{87}

\subsection*{4.2.2 Judgment}

The CJEU, although following AG Kokott in the other questions, did unfortunately not examine her suggestion on a possible application of the principle of exhaustion on services. Instead the CJEU examined the issues primarily on a basis of the freedom to provide services and the InfoSoc Directive.\textsuperscript{88} The Court stated that national legislation that prohibited foreign decoder cards was restricting the Union Treaty provisions on freedom to provide services. The restriction could not be justified by claiming protection of IPR, as the broadcasting of the football matches \textit{per se} could not meet the requirements of ‘works’ under the InfoSoc Directive.\textsuperscript{89} Furthermore, the Court held that, if Member States still would confer IPR

\textsuperscript{81}Opinion (n 77) paras 180.
\textsuperscript{82}ibid paras 184-85.
\textsuperscript{83}ibid paras 187-88.
\textsuperscript{84}ibid para 196. Unauthorised broadcast of film without paying remuneration.
\textsuperscript{85}ibid para 197.
\textsuperscript{86}Which is a consequence of having multiple customers in various European Member States.
\textsuperscript{87}Opinion (n 77) paras 198-202.
\textsuperscript{88}Premier League (n 73) paras 100-108.
\textsuperscript{89}ibid paras 111-14.
upon sport events within their jurisdiction, the contested restriction would still not be justified. The reason being that the remuneration system employed by the FAPL encouraged market partitioning, which went beyond what was necessary to assure satisfactory remuneration to the proprietors.\textsuperscript{90}

Although the CJEU did not address the potential application of the doctrine of exhaustion in Premier League, it would do so in a highly noticed case the following year in UsedSoft.

4.3 UsedSoft

4.3.1 Background

In UsedSoft\textsuperscript{91} the CJEU examined software, licensing and the application of exhaustion. Oracle, one the world’s largest software developers, distributed the contested software in Member States. This distribution was primarily done through direct download, by the users, from websites owned by Oracle. A license agreement granted the end user to have a permanent copy on a server, and also to have a defined number of users having a copy stored on the work-station computers. The licenses could be granted as ‘group licenses’ for a total of 25 users. Updated versions and so-called patches of the software could additionally be downloaded from the websites. The software could be stored on tangible assets, such as a DVD, by customer request.\textsuperscript{92} In the license agreement the following was stated under ‘Grant of rights’:

\begin{quote}
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.\textsuperscript{93}
\end{quote}

The defendant, the German company UsedSoft, purchased user licenses from the customers of Oracle which had a redundancy of licenses, such as the group licenses\textsuperscript{94}, and then resold those on their own website. After purchasing a used license, a customer downloads the software from the website of Oracle.\textsuperscript{95}

Oracle filed an application in the Regional Court in Munich, in order to prevent the conduct of UsedSoft. The court granted the application, and UsedSoft appealed to the Bundesgerichtshof\textsuperscript{96}. The Bundesgerichtshof held that UsedSoft infringed Oracle’s exclusive right of reproduction of computer programs within the meaning of Article 4(1)(a) of the Software

\begin{footnotes}
\item[90]ibid paras 115-17.
\item[91]Case C-128/11 \textit{UsedSoft GmbH v. Oracle International Corp.}, 2012 ECR I-0000
\item[92]ibid paras 20-22.
\item[93]ibid para 23.
\item[94]To clarify: if a customer needed 30 users, he or she was required to purchase two licenses granting 50 users the right to use. Thus 20 surplus licenses would exist.
\item[95]\textit{UsedSoft} (n 90) paras 24-26.
\item[96]German Federal Court of Justice.
\end{footnotes}
Directive. A purchaser of the used licenses was not entitled to reproduce copies by acquiring a valid transferred right, as the exclusive license agreement stated that the right to use the software were ‘non-transferrable’. However, the court was uncertain over several issues and referred three questions to the CJEU. The Bundesgerichtshof first asked about the application of Article 5(1); whether a ‘person who can rely on exhaustion of the right to distribute a copy of a computer program [is] a “lawful acquirer” within the meaning of Directive 2009/24’.

In the second question, the court was uncertain over the interpretation of exhaustion of distribution transposed in Article 4(2) of the Software Directive, especially the legal dilemma whether to include digital distribution in the scope of said article. The Bundesgerichtshof referred the second question as follows: ‘is the right to distribute a copy of a computer program exhausted in accordance with the first half-sentence of Article 4(2) of Directive 2009/24 when the acquirer has made the copy with the rightholder’s consent by downloading the program from the internet onto a data carrier?’.

In the final question, the court contemplated over whether the exhaustion doctrine still would apply if the first purchaser had erased his/her copy. The Bundesgerichtshof asked: ‘can a person who has acquired a “used” software license for generating a program copy as “lawful acquirer” under Article 5(1) and the first half-sentence of Article 4(2) of Directive 2009/24 also rely on exhaustion of the right to distribute the copy of the computer program made by the first acquirer with the rightholder’s consent by downloading the program from the internet onto a data carrier if the first acquirer has erased his program copy or no longer uses it?’.

4.3.2 AG opinion

AG Bot delivered an Opinion regarding the delicate matter. By considering that the second question must be examined before the others, he first observed the claims of the parties. UsedSoft claimed that the notion of ‘first sale’ could be applicable despite no transfer of ownership, as the fundamental factor was the commercial exploitation. Since Oracle made the copies available for an unlimited time in return for payment, UsedSoft argued that they were in fact sold, and thus subject to the doctrine of exhaustion. Oracle on the other hand replied that the remuneration model in force received payment on the foundation of a license agreement, where the user paid for the right to use, and not for owning the copy as such. The
company additionally argued that that Community legislation explicitly excluded exhaustion on intangible assets.\textsuperscript{103}

AG Bot approached the matter by first of all reminding the importance of achieving the Internal Market and safe-guarding the exhaustion doctrine. He continued with observing the fact that only distribution in form of sale could be exhausted, although if a sale has been ascertained, all different methods of distribution were the subject of exhaustion of rights. Noting the legal debate, especially the US one, over the potential application of exhaustion in a digital context, the AG held that the contractual relationship between the proprietor and the purchaser must be analyzed in order to determine whether a ‘sale’ had occurred or not. Oracle claimed it did not sell copies, merely made them available through its website. Oracle also argued that the license agreement did not transfer any rights of ownership.\textsuperscript{104}

Bot did not agree with this reasoning, stating that ‘a computer program or a copy of such a program must be regarded as being sold within the meaning of Article 4(2) of that directive where the transaction, however it may have been described by the parties, involves the transfer of ownership of a copy of the computer program, for an unlimited period of time, in return for the payment of a one-off fee’.\textsuperscript{105} The AG continued with commenting software license agreements, observing that a key factor was to examine the content of the authorization to use granted by the license. When the license included a limited time frame of use and periodic payments, the AG identified it more as a rental, whereas if the license included unlimited use for a one-time payment, it should be regarded more as a sale. Bot held that the notion of sale in Article 4(2) Software Directive must be given a broad interpretation, as the principle of exhaustion would otherwise be rendered useless, since distributors would merely call all agreements licenses instead of sales in order to circumvent the rule.\textsuperscript{106} However, granting the contested licenses the status of ‘sold’ was not enough to apply exhaustion, as the AG contemplated over the fact that Oracle claimed that exhaustion only applied to tangible goods. Noting the arguments stemming from the InfoSoc Directive, \textit{inter alia} that transmission of digital goods could not be classified as distribution but rather as communication to the public, the AG astonishingly rejected those arguments. Bot first of all held that Article 1(2)(a) InfoSoc Directive stated that the Directive should not affect existing EU legislation regarding the legal protection of computer programs. The Software Directive did not include the right of communication, and the right of distribution was broadly defined to include ‘all form of distribution’.\textsuperscript{107} Furthermore, as the InfoSoc Directive did not include a definition of the right to communicate works to the public, the interpretation of that right must be made with regards to the WCT, according to Bot. Art. 6(1) WCT.

\textsuperscript{103} ibid paras 34-37.
\textsuperscript{104} ibid paras 49-53.
\textsuperscript{105} ibid paras 54-58.
\textsuperscript{106} ibid para 59.
\textsuperscript{107} ibid paras 71-72.
defines distribution as the right to make a work available to the public ‘through sale or other transfer of ownership’. 108

_Ergo_, the AG stated that transfer of ownership transformed the communication to the public into a distribution. The AG also identified that the preamble to the InfoSoc Directive was ‘neither clear nor unambiguous’. 109 Finally, he held that removing the application of the exhaustion doctrine on internet downloads would limit the scope of Article 4(2) severely and would also restrict the Internal Market. Such restriction could be justified under Article 36 TFEU, if it safeguarded the specific subject-matter of copyright. Quoting Premier League, the AG held that by receiving an appropriate remuneration, Oracle could not claim additional protection to its specific subject-matter. As such, the AG concluded that the principle of exhaustion applied. 110

Regarding the first and third question, the AG stated that a clear distinction must be made between the exhaustible right of distribution and the non-exhaustible right of reproduction. The contested user license granted rights of use within the ambit of the right of reproduction, not distribution, as a consumer was entitled to download a new copy and reproduce an existing one. 111 Bot argued that the right of reproduction applicable in this case could not be limited by Article 5(1) Software Directive, since that provision did not grant a user the right to reproduce for a general use. He held additionally that Article 5(1) should only apply to customers in an agreement with the right holder, where said agreement did not contain explicit provisions. 112 The AG feared that by extending the scope of exhaustion to include the right of reproduction, although justified in order to secure an effective exhaustion doctrine and maintaining the Internal Market, it would pose a serious threat to the principle of legal certainty. Hence he concluded that second acquirer, although lawful, could not claim exhaustion of the right to reproduce. 113

4.3.3 Judgment

The CJEU also held that the second question should be examined first. It contemplated over the notion of ‘sale’ discussed by AG Bot, and held, similar to the AG, that ‘sale’ was ‘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’. 114 The conduct of Oracle to grant the right to use a copy for an unlimited time in return for a payment made the CJEU decide the following:

108 ibid para 73.
109 ibid para 74.
110 ibid paras 77-84.
111 ibid paras 94-95.
112 ibid paras 97-98.
113 ibid paras 99-100.
114 UsedSoft (n 90) para 42.
The making available by Oracle of a copy of its computer program and the conclusion of a user license agreement for that copy are thus intended to make the copy usable by the customer, permanently, 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 it is the proprietor.\textsuperscript{115}

Thus, the CJEU regarded the software licenses as sales within the meaning of Article 4(2) Software Directive.

The court did furthermore reject all arguments regarding the fact that the concept of ‘making available’ should be interpreted under Article 3(1) InfoSoc Directive, and therefore non-exhaustible. The CJEU held that since the Software Directive constituted a \textit{lex specialis} in relation to the InfoSoc Directive, the provisions in the former had precedence. Following the reasoning of the AG, the court pointed out the fact that a transfer of ownership transformed communication to the public into distribution, removing the possibility to label the transmission as a communication to the public.\textsuperscript{116} The CJEU continued by stating that nothing in the Software Directive gave rise to the interpretation that it did not include intangible copies in its scope, which the InfoSoc Directive expressively precluded. As the AG proposed, the CJEU held that a limitation of the exhaustion doctrine on downloaded and resold copies of computer programs ‘would go beyond what is necessary to safeguard the specific subject-matter of the intellectual property concerned’.\textsuperscript{117}

Asserting the claim of Oracle that the agreements sold by the first acquirer would create new copies when purchased by a costumer of UsedSoft through updates, which would prevent exhaustion, the CJEU held that the ability to download corrections ‘form an integral part of the copy’ and must be included in the interpretation of ‘sale’.\textsuperscript{118} However, the court stated that the first acquirer could not ‘divide the license and resell only the user right for the computer program concerned corresponding to a number of users determined by him’.\textsuperscript{119} The original purchaser was required by the court, in order to not violate the exclusive right of reproduction, to render his/her copy unusable to be able to resell it. With that said, the CJEU concluded that the answer to the second question was that intangible computer programs were the subject of the principle of exhaustion.\textsuperscript{120}

As the AG, the CJEU examined the first and third question together.\textsuperscript{121} Looking into Article 5(1) Software Directive, the court observed that a purchaser of software digitally distributed must download the software to his/her computer, which must be regarded as a necessary reproduction in order to use the program. Noting recital 13 in the preamble of the Software

\textsuperscript{115} ibid para 45.  
\textsuperscript{116} ibid paras 50-52.  
\textsuperscript{117} ibid paras 61-63.  
\textsuperscript{118} ibid paras 64-67.  
\textsuperscript{119} ibid para 68.  
\textsuperscript{120} ibid paras 70-72.  
\textsuperscript{121} ibid para 73.
Directive\textsuperscript{122}, the CJEU held that, since the exhaustion of distribution is applicable, a right holder could not prevent resale by enforcing contractual provisions restricting further transmission.\textsuperscript{123} However, as the CJEU previously stated, the copy subject to resale must be made unusable by the seller in order to be accepted. Deciding whether a copy had been made unusable or not was indeed an intriguing matter, as the court acknowledged, although not a novel problem, as the same problem existed with physical medium, as e.g. a DVD; it was problematic for a right holder to ascertain that such distribution was not illegally copied. Thus, the CJEU granted right holders the ability to include technical protection, for instance product keys tied to the specific software.\textsuperscript{124} The CJEU rejected the claims arguing that a lawful acquirer could only relate to the person authorized to use the software under a license agreement. This interpretation would hinder the application of the exhaustion of distribution, as a right holder would merely need to rely upon his exclusive right of reproduction to prevent the exhaustion.\textsuperscript{125} Thus the CJEU did not follow the recommendations of AG Bot regarding the first and third question. Considering its reasoning, the CJEU held that an acquirer of used software did fall under the meaning of lawful acquirer in Article 5(1), and thus could rely on exhaustion rights provided for the original purchaser.\textsuperscript{126}

\begin{flushright}
\textsuperscript{122} ‘The acts of loading and running necessary for the use of a copy of a program which has been lawfully acquired … may not be prohibited by contract’. \\
\textsuperscript{123} ibid paras 74-77. \\
\textsuperscript{124} ibid paras 78-79. \\
\textsuperscript{125} ibid paras 80-85. \\
\textsuperscript{126} ibid para 88.
\end{flushright}
5. Exhaustion in the USA

5.1 Origin

The exhaustion of copyright, or as the concept is framed in the US; the principle of first sale, was created in the case *Bobbs-Merrill*.127 Bobbs-Merrill Co was the publisher and proprietor of a novel which, expressively stated on its cover, was to be sold at a minimum price of $1. Prices less than $1 were to be regarded as copyright infringement. Another company, R. H. Macy & Company, purchased the books at wholesale at a significant lower price, and resold them for 89 cents. The plaintiff claimed copyright infringement as the books were sold below $1 and without consent.128 The Supreme Court stated that although the copyright statutes protect the proprietor’s right to reproduce his/her work and sell that production, it does not confer rights to limit resale.129 Thus, after the initial sale of a product, the right holder cannot prevent further sales.

The First Sale doctrine was codified in the US Copyright Act of 1909, which was updated to its current version of 1976.130 The section 109 (a) of the Act provides that ‘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’. However, this only applies to the exclusive distribution right of authors codified in section 106 (3).

Software is included in the subject-matter of US copyright law 17 U.S.C. § 102.131 Software programs are granted additional limitations on the exclusive rights of a right holder in 17 U.S.C. § 117, which grants reproduction for any purpose of use within the functioning of the program.132

5.2 Criteria

In order to claim a First Sale doctrine defense to copyright infringement, four criteria are required to be fulfilled. Firstly, the product in question must have been lawfully created with the consent of the proprietor. Secondly, the copy in question must have been transferred with the consent of the right holder. Thirdly, the invoker of First Sale doctrine defense must qualify as

127 US Supreme Court, 1 June 1908, No. 176, Bobbs-Merrill Co. vs. Straus, 210 U.S. 339.
128 ibid 339-40.
129 ibid 350.
131 ‘Computer programs’.
the lawful owner of copy. Fourthly, upon owning the copy, the invoker must merely have disposed and not reproduced that copy.\textsuperscript{133}

Applying these criteria on a hypothetical reselling of digital products, the first and second question are generally undisputable, as purchasing e.g. a song on iTunes is a legal purchase and transmission with consent of the right holder. However, the third and forth criteria rise questions regarding the applicability of the First Sale doctrine on digital products and software. With the practice of utilizing license agreements when selling digital goods, an end user will have problems when claiming he/she is a lawful owner of the product, as the right holder generally retains ownership. Furthermore, considering the technical features of digital transfers, it is problematic to ascertain whether it is the original digital product that has been transferred in a reselling, or an identical replicated copy.\textsuperscript{134} US cases involving the intersection of license agreements, the First Sale doctrine and digital products have increased in numbers, especially in the last decade, when US courts have tried to solve the issues concerning the third and forth criteria.

5.3 Case law

5.3.1 MAI

In addition to define the enforceability of end user license agreements in the 90’s\textsuperscript{135}, US courts examined the relationship of licensing and ownership. The United States Court of Appeal of the Ninth Circuit asserted in 1993 the First Sale principle and computer software in the \textit{MAI} case.\textsuperscript{136} The company Peak, when repairing computer systems containing the software made by MAI, copied the software temporarily to the Random Access Memory (RAM) of other computers, and then transferred it back when the repair was complete. Purchasers of MAI computers were licensed to utilize the software of MAI, however, third parties were not and thus MAI sued Peak for copyright infringement.\textsuperscript{137} The Ninth Circuit stated that a temporary copy of software onto RAM was still to be regarded as a copy, as it was permanent enough and existed more than transient time period.\textsuperscript{138} The court also held that due to the fact that end users of MAI’s software were licensees, 17 U.S.C. § 117 did not apply.\textsuperscript{139} \textit{Ergo}, end users of software license agreements were not considered to own the licensed software, and as such, the First Sale doctrine could not be applied. In the MAI and two

\textsuperscript{135} See (n 20).
\textsuperscript{137} ibid 517-18.
\textsuperscript{138} ibid 518.
\textsuperscript{139} ibid 519.
subsequent cases, the courts formulated what should be called the Wall criteria from the latest case. A transmission is a license when a copyright owner: (1) transfers a copy of a copyrighted work; (2) retains title; (3) limits the uses to which the work may be put; and (4) is compensated periodically based on the transferees exploitation of the materials.

5.3.2 SoftMan

In the case SoftMan Products Co. v. Adobe Systems Inc., the District Court for the Central District of California examined sales of software licenses. In a dual case, Adobe Systems, which develops and publish computer software, counterclaimed that the original plaintiff SoftMan Products, also distributing software, was infringing its software and license terms by distributing unauthorized copies of Adobe software. SoftMan purchased bundles of Adobe software and separated them into single products, which were resold through a website. Adobe alleged that this conduct violated the EULA, as licensees were prohibited to unbundle the product, and that it was detrimental to the company’s ability to control the distribution of the products. Furthermore, Adobe argued that the First Sale doctrine could not be used as a defense, as the company merely licensed its products, not sold them. SoftMan responded that the First Sale doctrine was indeed applicable, that the EULA was not applicable since SoftMan was not a licensee and thus contended that its conduct was legal.

The court examined the nature of a purchase of Adobe’s products, and stated that they must be regarded as sales, because the purchaser paid a fixed price in order to use the software for an unlimited time. The court additionally held that the business model of Adobe would be classified as sales rather than licensure, as Adobe sold large quantities to distributors, which paid full price, accepted the risk of potential damage to the products and potential unsaleable products. SoftMan was also not considered to be bound be the EULA as there was no element of assent. With the findings combined with the fact that the distributors themselves resold the product to other distributors in the secondary market, the court judged that the First Sale doctrine applied.

5.3.3 Davidson & Associates

However, in Davidson & Associates v. InternetGateway Inc., the District Court of Missouri had another opinion regarding software licensing and


\[142\]ibid 1080-1081.

\[143\]ibid 1083.

\[144\]ibid 1084.

sales. Davidson & Associates, who owned the renowned computer games
developer Blizzard Entertainment, found that a number of individuals had
created a server software where they could play their lawfully acquired
games made by Blizzard. Blizzard already ran service software enabling
their users to play free on its servers, but the defendants chose to create their
own since they claimed that by using the software of Blizzard, several
problems were encountered. The plaintiff sued these individuals for several
copyright infringements and breach of contract.\textsuperscript{146} The court granted
summary judgment in favor of Davidson & Associates, stating that the
defendants merely purchased a license to use the contested software. As
such, they did neither purchase the actual software nor the ownership. Since
the defendants could not prove sufficiently that they purchased a product
with ownership and not merely a license agreement, the First Sale doctrine
was inapplicable.\textsuperscript{147}

5.3.4 Krause

The following year 2005, in \textit{Krause v. Titleserv Inc.}, the Second Circuit
ruled on software ownership. Mr. Krause had developed specific software
for Titleserv, and limited the company’s use to prohibit changes to the
source code. However, Titleserv made various alterations to the code and
Krause sued the company for copyright infringement.\textsuperscript{148} Krause claimed that
the software should be regarded as licensed, but the court disagreed and
stated that Titleserv was the owner of the software. The decisive reason was
the fact that the software was custom made for a specific company rather
than the common market, and thus the risk for replication was negligible.\textsuperscript{149}

5.3.5 Aftermath

The legal uncertainty whether to categorize software as sales or as licenses
in the US seems to have at least been somewhat clarified the last five years.
downloadable digital music.\textsuperscript{150} The rap artist Eminem had signed a record
contract with F.B.T., which in turn signed an agreement with Aftermath
Records granting the latter the distribution right in exchange for royalty.
The royalty fees were calculated according to two provisions, the ‘sold’
provision; granting F.B.T. 15-20\% in royalty for every full-priced sold
record, and the ‘master licensed’ provision; granting 50 \% in royalty. The
term ‘master’ was 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’. Aftermath sold digital music files to companies such as iTunes,
while paying F.B.T. royalties according to the ‘sold’ provision. Hence,
F.B.T. sued Aftermath and claimed that the digital transfer should be

\textsuperscript{146}ibid 1167.
\textsuperscript{147}ibid 1176-78.
\textsuperscript{149}ibid 124.
regarded as licensing and not sales.\textsuperscript{151} The court examined the problematic question whether third party digital download should be regarded as sales or license agreements, and held that digital media should be considered to fall under the ‘master licensed’ provision. The court stated that all files provided should be regarded as licenses and not sales.\textsuperscript{152} The court examined the problematic question whether third party digital download should be regarded as sales or license agreements, and held that digital media should be considered to fall under the ‘master licensed’ provision. The court stated that all files provided to end users were distributed from one ‘master’ copy, and these ‘master’ copies were licensed to third parties such as iTunes.\textsuperscript{153} Furthermore, citing the \textit{Wall} criteria, the court held that the transaction was to be regarded as a license and not sale; due to the fact that the transmission did not include ownership and that it could be revoked at any time.\textsuperscript{154}

5.3.6 Vernor

The same month as the Aftermath case in 2010, the Ninth Circuit ruled in the case \textit{Vernor v. Autodesk, Inc.}.\textsuperscript{155} Mr Vernor sold second-hand software of Autodesk on eBay, which he had bought from office sales. These software packages were originally protected by shrink-wrap license agreements, but due to their used nature, these were removed. The question was if the transmission from Autodesk to its customers could be considered a sale, since that would protect the conduct of Vernor under the doctrine.\textsuperscript{156} The court developed a ‘three-step test’ in order to determine whether someone is a software licensee or not. If a copyright owner: ‘(1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions’, then a user would be classified as a licensee.\textsuperscript{157} Examining the factual circumstances, the court ruled that the transfer between Autodesk and its customers was to be regarded as license agreement and not sale. Thus the First Sale doctrine was not applicable.\textsuperscript{158}

With the Vernor and Aftermath cases, the US courts have acknowledged the strong position of the right holders and license agreements. However, what is the legal position on transmission of digital files when those have been lawfully acquired? In the recent case of \textit{ReDigi}, the District Court has provided an answer.

\begin{footnotesize}
\begin{itemize}
\item\textsuperscript{151} ibid 958-61.
\item\textsuperscript{152} ibid 958-61.
\item\textsuperscript{153} ibid 964.
\item\textsuperscript{154} ibid 965-66.
\item\textsuperscript{155} US Ninth Circuit, \textit{Vernor v. Autodesk, Inc.}, 621 F.3d 1102, 2010.
\item\textsuperscript{156} ibid 1105-07.
\item\textsuperscript{157} ibid 1111.
\item\textsuperscript{158} ibid 1112-13.
\end{itemize}
\end{footnotesize}
5.3.7 ReDigi

The US District Court Southern District of New York in the case *Capitol Records, LLC v. ReDigi, Inc.*, examined the fact whether lawfully acquired digital music may be resold under the First Sale doctrine. The company ReDigi opened a webpage late 2011, which offered its users a service where they could resell their pre-used music files purchased from e.g. iTunes. In order to sell music through ReDigi, a user was required to download ReDigi’s software program called Media Manager, which searched the computer to ensure that the user did not keep the music files put for sale. Upon detection, the user was prompted to remove the conflicting file, and a refusal would result in suspension from ReDigi’s service. After a search, all files target for sale were uploaded to ReDigi’s server. Capitol received notice regarding the conduct of ReDigi and filed for copyright infringement, as Capitol did not approve to neither reproduction nor distribution of its music. ReDigi in turn replied that its conduct was acceptable under the First Sale doctrine.

The District Court held that ReDigi violated the exclusive rights of reproduction and distribution granted to Capitol. The reproduction right was infringed due to the fact that using digital transmissions created copies falling under the notion of reproduction within the meaning of the Copyright Act, which were unauthorized. The court held that the transmission from a user’s hard drive to ReDigi’s online storage server could not function without reproduction, despite ReDigi’s claims of the opposite. The court interpreted the text of 106(1) of the US Copyright Act, to include that reproduction was at hand when copyrighted works were transferred into a new material object. Similar, the court held that the distribution right was violated as sales undisputedly were conducted on ReDigi’s website without authorization. However, the court contemplated over the possible justification of these infringements with regards to the First Sale doctrine.

The court stated initially that the First Sale defense could not be used by ReDigi in order to justify an infringement of reproduction rights. Furthermore, the doctrine also did not apply to the distribution as, being unauthorized reproductions, the files sold on ReDigi were not lawfully made within the meaning of 17 U.S.C. § 109(a). The court highlighted the fact that the digital reproduction made it near impossible to ascertain a user’s original file, which could arguably be subject to a first sale, as the copies became identical. Also, the court held that the First Sale doctrine only applied to tangible items, and since ReDigi distributed intangible digital

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160 ibid 2-3.

161 ibid 3-4.

162 ibid 5-7.

163 ibid 8-9.

164 ibid 11.
files, the company could not claim the First Sale defense. However, ReDigi claimed that a refusal to apply the First Sale doctrine would extend the rights granted by the Copyright Act, which would be against policy. The court quoted the United States Copyright Office which previously had denied extension of the First Sale doctrine to distribution of digital goods:

 physical copies of works degrade with time and use, making used copies less desirable than new ones. Digital information does not degrade, and can be reproduced perfectly on a recipient’s computer. The “used” copy is just as desirable as (in fact, is indistinguishable from) a new copy of the same work. Time, space, effort and cost no longer act as barriers to the movement of copies, since digital copies can be transmitted nearly instantaneously anywhere in the world with minimal effort and negligible cost. The need to transport physical copies of works, which acts as a natural brake on the effect of resales on the copyright owner’s market, no longer exists in the realm of digital transmissions. The ability of such “used” copies to compete for market share with new copies is thus far greater in the digital world.

Finally, the court asserted the claim of ReDigi that the Court interpretation of Section 109(a) would abolish digital goods from the meaning of the statute. As the provision still protected a sale conducted by the lawful owner, for instance when the file was originally downloaded to a CD, the First Sale doctrine was not entirely removed from application in the digital world. The court concluded that the First Sale doctrine was not created to compete with modern digitalization, and it was upon the Congress to decide the fate of the limitations of the First Sale doctrine, not the court.

165 ibid 12.
166 ibid 12-13.
167 ibid 13.
6. Analysis

6.1 Sale or license?

Since both the FAPL and the UsedSoft cases were delivered by the Grand Chamber of the CJEU, it is indeed feasible that these cases will constitute the fundamental basis on determining the relationship between IPR and the Internal Market in a digital context. Above all, it is clear that the CJEU is determined to ensure that technological innovation will not deteriorate the freedom of movement of rights by creating territorial restrictions.\textsuperscript{168}

One of the main and crucial determinations regarding the applicability of copyright exhaustion on digital files is the intersection between ‘sale’ and ‘licenses’. It is a fundamental concept of a license agreement that the ownership is retained by the right holder, and the software industry has based the whole business model on this concept.\textsuperscript{169} Granted, the enforceability of software license agreements have been contested within the Union, especially in contractual relationships between right holders and private consumers.\textsuperscript{170} Nevertheless, ownership has traditionally been regarded to remain with the right holder.\textsuperscript{171} With the UsedSoft case, the CJEU has provided the Community with a brand new interpretation of ownership in certain license agreements.\textsuperscript{172} Arguments have been raised that the notion of ‘sale’ shall only enshrine software in tangible mediums, since transfer of ownership traditionally has only applied to physical objects.\textsuperscript{173} However, as noted by Król and Menčl, such interpretation cannot be accepted, because the sole difference between sale of a tangible medium with software and a download is the method of distribution, whereas the economic transaction remains the same.\textsuperscript{174} The CJEU also highlighted the importance of the economical factor, as both it and AG Bot came to the same statement that the contractual relationship between the proprietor and the purchaser must be examined in order to determine ‘sale’.\textsuperscript{175} It is clear that the key factor of a ‘sale’ must be a transfer of ownership in exchange for payment. According to the CJEU and AG Bot, allowing users to download a copy and use it for an unlimited time, in return for a fixed sum must be classified within the meaning of ‘sale’.\textsuperscript{176}

\textsuperscript{168}Christopher Stothers, ‘When is copyright exhausted by a software licence? UsedSoft v Oracle’ E.I.P.R. 2012, 34(11) 787, 790.
\textsuperscript{169}Król and Menčl (n 36) 28.
\textsuperscript{170}c.f. the reasoning of the Commission it is Proposal in chapter 3.4.2.
\textsuperscript{171}Król and Menčl (n 36) 28.
\textsuperscript{172}See (n 114).
\textsuperscript{174}Król and Menčl (n 36) 31-32.
\textsuperscript{175}UsedSoft (n 90) para 42.
\textsuperscript{176}ibid. para 45.
The US solution has evolved from the MAI cases into the latest Vernor case.\textsuperscript{177} The specific provisions in a software license agreement will be of great importance when determining whether the transmission of the software is a license or sale.\textsuperscript{178} Consideration shall be taken to a) the definition of the transfer, b) the restriction of further transfer and c) use restrictions.\textsuperscript{179} In the US examination, labeling the transfer as a ‘license’ and include prohibitions on resale would hence be an indication on a license agreement relationship. Acknowledging the strength of the license agreement, the US courts have indeed ruled in favor for right holders.\textsuperscript{180}

At first, it is not surprising that the software industry has conducted trade through license agreements with the additional benefits of exclusive rights.\textsuperscript{181} In contrast, the consideration from the CJEU that software could be regarded as sales is remarkable indeed for the software distributors. There has been disapproving opinions whether perpetual license agreements in fact includes transfer of ownership, and that the judgment of the CJEU contradicts the traditional legal definition of license agreements.\textsuperscript{182} However, these opinions are too fixated on traditional licensing, and are overlooking the peculiar nature of software. It seems strange that goods sold with use for an unlimited time for a fixed sum should still be considered ‘licensed’, governed by license agreements which might not even be enforceable.\textsuperscript{183} For physical goods this would have been rather unthinkable, and it is refreshing to see the CJEU formulating a novel and logical interpretation, which is more nuanced than the US perspective.

However, the interpretation of the CJEU does not address situations without payment. Reading the judgment strictly, if no payment is received, the transfer would not be regarded as a sale. \textit{Ergo}, with that interpretation, a right holder which transfers the rights to use the software for unlimited time could prevent exhaustion. It is uncertain if such an interpretation would be correct, although at least according to Król and Menčl, it would be impossible to include transfers without payment within the definition of sale.\textsuperscript{184} Thus, the \textit{ex analogia} interpretations should be kept at a minimum.

\textsuperscript{177}See chapter 5.


\textsuperscript{179}Vernor case (n 157) Para 1111.

\textsuperscript{180}See chapter 5.

\textsuperscript{181}As a license agreement confers more rights to a right holder than a sale. c.f. Król and Menčl (n 36) 28.


\textsuperscript{183}c.f. chapter 2 and 3.4.1.

\textsuperscript{184}Król and Menčl (n 36) 33.
6.2 Digital Transmission

6.2.1 Distribution

The next legal dilemma regarding exhaustion of copyright in a digital environment is the question of transmission. Should downloading of software be classified as ‘distribution’ or ‘reproduction’, and what is the relationship to the right of communication to the public?185 In the UsedSoft case, both Oracle and the Commission argued that having copies available for download on a website fell under the notion of ‘making available to the public’ in Art. 3(1) of the InfoSoc Directive, which would preclude the principle of exhaustion.186 As illustrated under 4.3.3, the CJEU rejected those arguments based on the lex specialis of the Software Directive. However, some concerns have appeared noting the confusion of labeling the Software Directive as lex specialis over the InfoSoc.187 As illustrated in chapter 3.4, there are merely minor differences between the Software Directive of 1991 compared to the current version of 2009, and the relevant provisions regarding exhaustion are basically equivalent. This means that provisions codified 22 years ago, when the majority of software was transferred by physical medium, have precedence over the more contemporary InfoSoc Directive.188 Hence, the opposing opinions of the judgment questions why the InfoSoc Directive, with explicit rules on the application of exhaustion on online services shall submit to the Software Directive with vague provisions on the contested concept of exhaustion.189 While it is apparent that the legal ‘clash’ between the Software and InfoSoc Directive causes confusion such as the above mentioning of lex specialis, it must be remembered that they have different origins which could explain the dichotomy.190 The problematic intersection between the Directives will be addressed below in 6.6.

Furthermore, the court did not examine the term of ‘any form of distribution’, as having established the existence of a sale, the principle of exhaustion granted in Art. 4(2) Software Directive was applicable. The court also held that, stemming from Art. 6(1) WCT, that a sale, which constitutes a transfer of ownership, will transform Art. 3 InfoSoc Directive into the distribution provision of Art. 4 InfoSoc Directive.191

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186 UsedSoft (n 90) para 50-51.
187 Harris (n 182) 23.
188 ibid.
189 ibid.
190 UsedSoft (n 90) para 60.
191 ibid. paras 51-52.
There has been criticism against this interpretation of the CJEU. In previous EU case law, along with the InfoSoc Directive, transfer of intangibles has been regarded as a service, although suggested inter alia by AG Kokott, on which the principle of exhaustion does not apply. The CJEU has not commented on the question whether transfer of certain intangibles, such as e-books and digital music files, should be exempted from the service interpretation and instead be classified as distribution of goods. Thus, the proprietors have interpreted ‘making available to the public’ as a service within the meaning of the WCT. Art. 8 WCT grants right holders the exclusive right to communicate ‘by wire or wireless means’, which cannot be the target of exhaustion. Nevertheless, it seems that the CJEU does not further assess the nature of the transmission as long as the work in question is regarded to be sold. Therefore, as long as the software is regarded to be sold, the transmission will be held to be a distribution. However, in the legislative acts the principle of exhaustion is expressly stated to be inapplicable to intangible goods. This stance has additionally been confirmed by the Commission. How could the CJEU legitimize an extended scope of the principle of exhaustion?

6.2.2 Application of the principle of exhaustion on intangible goods

In the UsedSoft case, the CJEU held that the Software Directive makes no explicit difference between tangibles and intangibles in Art. 4(2) through the term of ‘sale … of a copy of a program’. Art. 1(2) and Recital 7 in the preamble also safeguarded computer programs in ‘any form’. Furthermore, nothing in the Proposal explicitly prohibits the application of exhaustion on intangibles. Given the lex specialis mentioned above, the Software Directive has precedence over the lex generalis InfoSoc, thus enabling the application of the principle of exhaustion.

The CJEU did acknowledge that extending exhaustion on intangibles could create a dichotomy between the two Directives as the InfoSoc limits the exhaustion to tangible goods. However, even so, given the ‘different intention’ behind the Software Directive, Art. 4(2) of that Directive should not be affected by Recital 28 and 29 in the InfoSoc Directive. It is unclear whether the CJEU

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193 AG Kokott Opinion (n 78).
194 Coditel (n 70).
195 Moon (n 192).
196 See chapter 3.5.
197 UsedSoft (n 90) paras 50-51.
198 See (n 50).
199 UsedSoft para 55.
200 Ibid. para 57.
201 See the Proposal (n 23).
202 UsedSoft (n 90) para 56.
203 Ibid. para 60.
with this comment aimed to limit the extension of the principle of exhaustion to intangible computer programs only.

Additionally, the CJEU interpreted Art. 4(2) in the light of the principle of equal treatment, stating that sale of computer programs on tangible media is similar to sale of computer programs through downloading.\textsuperscript{204} This follows the AG Opinion of Kokott that some intangibles are closer to the definition of goods than services.

One argument against the applicability of exhaustion on intangible goods is the fact that digital products do not deteriorate, and thus maintain their pristine condition.\textsuperscript{205} However, that reasoning is somewhat flawed, as some digital goods may deteriorate, albeit in a slightly different form. It must be remembered that the technology advancement not only has created legal dilemmas for legislators over the world, it also indirectly imposes an expiration date upon software. For instance, most of the software marketed in the nineties is in fact unusable today, due to; \textit{inter alia}, inoperability with operating systems. Furthermore, regarding the other digital works, it depends on how they are coded. For instance, a film delivered in a certain code format may be unwatchable if that format, due to its age, is not supported by the current media player. Hence, as with physical copies requiring the adequate system to function, software, both tangible and intangible copies can arguably become outdated.

With that said, it seems that the main reason for the CJEU to dismiss the claim inapplicability of exhaustion on intangibles and therefore override the InfoSoc Directive, is due to competition law policy.\textsuperscript{206} As AG Bot observed, excluding sales of downloading from the principle of exhaustion could give rise to an increase of market partitioning and would go beyond the specific subject-matter of copyright.\textsuperscript{207} Granting exhaustion on intangible computer programs will on the other hand be problematic, as it infringes the right of reproduction, which will be examined next.

\subsection*{6.2.3 Reproduction}

By expanding the principle of exhaustion to downloaded copies of software, the concept is in conflict with the exclusive right of an author to reproduce his/her work, as copies are created when a transmission occurs in a digital

\textsuperscript{204}It should be added 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. Interpreting 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.’ \textit{UsedSoft} (n 90) para 61.

\textsuperscript{205}See (n 166).

\textsuperscript{206} \textit{UsedSoft} (n 90) paras 62-63.

\textsuperscript{207} See (n 110).
environment. As identified by the Commission in the Proposal of the Software Directive, ensuring the exclusive right of reproduction to authors is fundamental to render the protection effective. Without the provision of Art. 4(1) Software Directive, there would not be any incentives for creating software, as all works could be copied without consequence.

With that said, scholars have argued that the copyright exhaustion rule should include the reproduction right of the author. Otherwise, in order to realize a resale of computer programs, the original material medium needs to be copied, which would impair software tradability. While a resale of downloaded software indeed requires copying to function, a too broad interpretation of the principle of exhaustion to include reproduction may be contra-productive, since it would threaten the fundamental protection of software.

Nevertheless, the CJEU did unfortunately not in the UsedSoft case contemplate extensively over possible exhaustion of reproduction, other than stating that a copy targeted for resale must be made ‘unusable’. Instead, the copies created were the result of the lawful acquirer using the program for its intended purpose granted by Art. 5(1) Software Directive.

6.2.4 US perspective

The US courts have focused more on the reproduction than distribution of intangible goods. Through the ReDigi case, the District Court of New York have made the distinction that the First Sale doctrine only applies to tangible assets as it requires a ‘particular’ copy to be transmitted. As digital transmission creates copies it cannot fall under the scope of the principle of First Sale, since a ‘particular’ copy is not transferred. Hence, digital transmission should always be regarded as an act of reproduction in the US, at least until the creation of temporary copies can be removed.

6.3 Lawful use

6.3.1 The Original Acquirer

Through the UsedSoft case, the CJEU addressed the dilemma that using computer programs inevitably creates copies. As described under chapter 4.3.3, the court has ruled that purchasing and downloading a computer program will create copies that must be regarded as a result of using the program for its intended purpose. These can be resold if made ‘unusable’.

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208 The use of a computer program, unlike the use of other works protected by copyright, generally requires its reproduction. UsedSoft (n 90) para 30.
211 AG Bot Opinion (n 101) para 99.
212 UsedSoft (n 90) paras 85-87.
213 ReDigi (n 159) 11-12.
214 The problems revolving around this technical notion will be addressed in 6.6.4.
The CJEU did apparently not share AG Bots concerns of the detrimental effects on the principle of legal certainty by including the right of reproduction into the scope of copyright exhaustion. Nevertheless, it must be underlined that the granted right by the CJEU to transfer a downloaded copy by reselling it, is not a foolish opening of a Pandora’s Box of unlimited copying. An original acquirer must render the software target for resale permanent inoperable to him/her in order to benefit from the extended right. Thus, practices where the original acquirer maintains the copy as usable and resells new copies from it would be regarded as unauthorized copying and in breach of the reproduction rights given to a right holder.

Furthermore, by allowing exhaustion of distribution but prohibiting the necessary reproduction, the CJEU would have created potential legal uncertainty where the software could be sold but not used. The concerns of the AG are unfounded if the reasoning above is followed.

US legislation states that the First Sale doctrine does not extend to a user of e.g. a licensed copy if that user has not acquired ownership over said copy. Following the Vernor criteria, described in chapter 5.3.6, which determined whether a user is a licensee or an owner, it is hard for users to claim they are owners of the software given the strength of the license agreements.

6.3.2 The Second Acquirer

The CJEU extended Art. 5(1) Software Directive to also include subsequent acquirers after the original one within the scope of ‘lawful acquirer’. However, this creates questions regarding the relationship between the right holder and a second acquirer. As Harris has pointed out, a purchaser of resold software could retrieve it in two ways. The original purchaser could send the program to the second acquirer, which would create a situation where the new owner is entitled to use the program, but without further knowledge regarding the license provisions between the right holder and original purchaser. On the other hand, a second acquirer could also download the software from the rightholder’s website by purchasing a used password. In this case, in connection with the download, the second-hand user would be made aware of the EULA through e.g. a click-wrap license. Furthermore, if the CJEU would state that the transfer of software will include the license, the purchaser of the resold software could be imposed terms he/she never agreed to.

215 AG Bot, Opinion (n 101) para 99.
217 See chapter 5.1.
218 UsedSoft (n 90) paras 85-87.
219 Harris (n 182) 24.
220 Ibid.
However, these concerns are connected with the legal interpretation and contested enforceability of EULA’s. In the UK, EULA’s, at least in the form of click-wrap agreements, should be regarded as enforceable\(^{221}\), which explains the concerns of Harris. Software license agreements have been, illustrated in chapter 6.1, regarded as sales, but the further intersection of contract law in form of licensing agreements has not been examined.

### 6.4 Licensing Agreements

The judgment of *UsedSoft* has affected traditional license agreements, as clauses preventing transfer of software can no longer be enforced. Otherwise, according to the CJEU, the principle of exhaustion could be circumvented.\(^{222}\)

Limiting the software license agreement is furthermore protecting the consumer. Most purchasers of software know that protective measures such as DRM might be in place in order to protect the right holder from online piracy, although they would be surprised that the EULA contains prohibition on resale. Similar clauses in other copyrighted work, for instance a painting, would also be regarded as inapplicable.\(^{223}\)

Additionally, by regarding software licenses as sales, provisions contained in EULA’s, attached to a specific software, confirming that the ownership still remains with the right holder will be without purpose if use for an unlimited time has been granted in return of a fixed sum.\(^{224}\) Clearly, it does not matter whether the software license agreement take the form of a shrink-wrap or click-wrap agreement in an attempt to prevent transfer of ownership. By utilizing an e-commerce method of downloadable copies with timeless use, a developer has apparently agreed to sell its software instead of out-license it.

On the contrary, in the US the position of license agreements has been enhanced since the *Softman* case through several judgments, most notably the *Vernor* and *Aftermath* cases. This has at the same time raised criticism regarding consumer protection in the US.\(^{225}\) Nevertheless, with the recent *Redigi* case, the legal trend does not appear to be derailing on its course to strong right holder protection.

It should be noted that maintenance agreements, which are classified as services, can be prevented from being transferred. Thus, a second acquirer could be excluded from receiving future updates and fixes to the purchased software.\(^{226}\)

\(^{221}\)Stokes (n 5) 127.
\(^{222}\)UsedSoft (n 90) para 77.
\(^{223}\)Göbel (n 216) 232.
\(^{224}\)UsedSoft (n 90) para 45.
\(^{226}\)UsedSoft (n 90) paras 66-67.
A new service agreement must otherwise be formed between the second acquirer and the right holder. It is highly unlikely, as Göbel correctly observes that the right holder is elated to form such new agreements due to the second-hand status of the software. Nevertheless, the potential refusal of maintenance agreements to second acquirers may be detrimental to the right holder in a longer perspective, as third party undertakings could be offering the maintenance instead. Such refusal could also be considered as infringing competition law. With that said, is unlikely that the UsedSoft case will have any major consequences on software that requires constant maintenance to function.

6.5 Extended scope of exhaustion to other digital works

It is no doubt that the landmark cases will have an impact on the intangible digital mediums which were not the target of the judgments; e-books, music files and films/TV-series. Albeit not ‘software’ per se, the digital transmission is commonly the same as with software. Could the extended scope of exhaustion apply to these intangible goods?

First of all, it must be noted that much of the reasoning of the CJEU in UsedSoft concerned software and the fact that the Software Directive is lex specialis in relation to InfoSoc. As such, it is likely that films, e-books and music digitally transferred will not be the target of exhaustion as they are governed by the InfoSoc Directive. However, if the criteria launched by the CJEU, in order to determine whether a sale or a license is at hand, are applied to the digital goods, the result would be identical. Most music files, films and e-books are granted with indefinite use to the purchaser in return for a fixed payment sum. Ergo, those transfers should be regarded as sales equal to software.

Secondly, since the CJEU held that if the transmission was a transfer of ownership and thus changing an act of communication into an act of distribution, the case of UsedSoft implies that other digital works could indeed be the target of the principle of exhaustion.

Thirdly, as argued by AG Kokott, allowing the portioning of the Internal Market of digital works would be in conflict with competition law and the specific subject-matter of copyright.

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227 Göbels (n 216) 231.
228 Harris (n 182) 25.
229 Computer programs, contrary to the other digital works, are instructions coded to perform certain tasks in a computer. Ralph M. Stair and George Reynolds Principles of Information Systems (10th edn, Cengage Learning 2012) 139.
230 UsedSoft (n 90) para 56.
231 ibid. para 52.
However, in contrast to the Software Directive, the InfoSoc Directive does not contain an explicit provision on lawful acquirers. Art. 5 InfoSoc Directive allows temporary acts of reproduction, but this article is aimed to cover only transient copies without economic value, such as the temporary copy stored in the RAM of a computer when a user e.g. watches a film. Despite the fact that the InfoSoc Directive does not exempt permanent copies, there have been suggestions that an act of reproduction which only aims to make a resale possible should still be considered legit.

National case law is starting to emerge guided by the judgments of FAPL and UsedSoft. The interpretation of paragraph 60 in the UsedSoft case will be crucial. Guidelines must be delivered whether it is possible to apply copyright exhaustion on all digital works that can be classified as sold, or only allow the principle on downloaded software. Also, notice must be taken to the development in the US, where exhaustion never will apply to digital works, as long as it gives rise to reproduction. The CJEU will undoubtedly have to examine the question of the other digital intangibles in order to enhance the guidance in this troublesome area.

6.6 Consequences

6.6.1 Copyright legislation

A very important factor of the UsedSoft case is the impact on the InfoSoc Directive. As with other Directives, the InfoSoc Directive based its legitimacy on Art. 114 TFEU, to pursue the establishment of the Internal Market. As scholars have addressed, the restriction by the InfoSoc Directive to only allow exhaustion on distribution of physical goods instead of giving a solution on how to ‘enforce the principle of the free movement of copyrighted goods and services on the Internet’ and thus removing barriers on the online market, raises concerns that the Directive has failed its constitutional goal. With the UsedSoft judgment, the CJEU seems to indirectly confirm the incapability of the InfoSoc Directive to remove online market barriers, as the Court extended the principle of copyright exhaustion in order to prevent market partitioning of software.

However, other opinions have argued, regardless the potential inapplicability of the InfoSoc Directive, that the European Member States

233Mazziotti (n 29) 88-89.
236Case Tempelhöfer v CMS Hasche Sigle (in German) 5.3.2013, Az. 4 O 191/11, http://www.boersenverein.de/sixcms/media.php/976/LG_Bielefeld_vom_05.03.13_Klage_Verbraucherzentralen.pdf (last visited 23 May 2013) The Landgericht (District Court) held that the principle of exhaustion is not applicable on resold e-books.
237Mazziotti (n 29) 49.
238Ibid 68-69.
are now in fact infringing the WCT through the judgment of UsedSoft.\textsuperscript{239} Art. 8 WCT does not allow exhaustion on the exclusive right to communicate a work to the public, ‘[which] covers transmissions of digital and digitized works over the internet’\textsuperscript{240}. Furthermore, according to Art. 22, Art. 8 cannot be implemented in a way that would alter the contents of the WCT. Since the CJEU has interpreted the copyright exhaustion in the Software Directive to apply on digital transmission of software, EU law is breaching the WCT.\textsuperscript{241} This reasoning depends on the interpretation of the digital transmission in question, which has been illustrated above in 6.2.

Which reasoning is the most logical one? It must be held that the examination of the economical transaction of the disputed digital work, which the CJEU has done, instead of staring blindly at the digital transmission, is more reasonable.\textsuperscript{242} Hence, the CJEU will legitimize its judgment by following Art. 6(1) WCT instead of Art. 8 WCT. The Agreed Statement 6 and 7 in the WCT will not prevent that interpretation.\textsuperscript{243} Nevertheless, it is clear that the interest of the WCT to maintain the exclusive rights of the right holder is in conflict with the aim of CJEU to maintain the Internal Market.

6.6.2 Competition aspects

Another interesting aspect of the case UsedSoft is the enhanced definition of the specific subject-matter of copyright which follows the FAPL case. As that subject-matter is limited to an ‘appropriate’ remuneration by the CJEU, there have been raised concerns over the impact of this interpretation on proprietors.\textsuperscript{244} If CJEU and national courts were to maintain that all compensation for various IPR must be proportionate, several different areas, such as pharmaceutical licensing could be affected. Nevertheless, as Stothers points out, this would be a too extensive interpretation of the judgment, as the CJEU is stating that a proprietor cannot justify an enlargement of the scope of his/her exclusive rights granted by copyright by referring to the larger profit he/she would receive if the scope was enlarged.\textsuperscript{245} That statement cannot be regarded as an outrageous decision and the CJEU will undoubtedly adopt a rational stance when applying the concept.

\begin{footnotesize}
\begin{enumerate}[\textsuperscript{239}]
\item Moon (n 192).
\item ibid.
\item ibid.
\item See chapter 6.1.
\item The question may emerge whether this Agreed Statement conflicts with the “umbrella solution” for transmissions in interactive digital networks, and, particularly, whether or not it excludes application of the right of distribution to such transmissions. The answer to this question is obviously negative. The Agreed Statement determines only the minimum scope of application of the right of distribution; it does not create any obstacle for Contracting States to exceed that minimum’. WIPO, National Seminar on the WIPO Internet Treaties and the Digital Technology WIPO/CR/RIO/01/2, 20 August 2001 para 46.
\item Harris (n 182) 23-24.
\item Stothers (n 168) 790.
\end{enumerate}
\end{footnotesize}
Furthermore, by stating that a limitation of the principle of exhaustion to apply only on tangible products would go ‘beyond what is necessary to safeguard the specific subject-matter of IPR’, the CJEU has underlined that the prime rationale of exhaustion is to ensure the freedom of movements.\textsuperscript{246}

Although a somewhat diffuse concept, aligning the digital industry to be in compliance with the goal of creating an Internal Market is reasonable. The Commission is not content with the current unharmonized digital market, as it is working on the Digital Agenda for Europe, set for completion in 2020, and has devoted the first pillar to the construction of a Single Digital Market.\textsuperscript{247} The following sections will illustrate the consequences for the various involved in that industry.

\subsection*{6.6.3 Right holders}

The obvious result of the \emph{UsedSoft} case is that, due to the increase in resold licenses, right holders will see a decline of sales. An increase of competition from third parties reselling software, will furthermore affect prices negatively for the right holder.\textsuperscript{248} As with the parallel trade of pharmaceutical it could be argued that allowing second-hand software will be detrimental to innovation of copyright, removing the incentives to profit from hard labor.\textsuperscript{249} However, it is important to notice that the CJEU did not allow partitioning of licenses, through resale of ‘surplus’, or ‘unused’, user licenses. This would have been detrimental to license agreements which included multi-user licenses, as no proprietor would out-license software which included a larger amount of user licenses, since costumers could then resell the surplus licenses and recoup part of the payment.\textsuperscript{250} Such conduct would grant the purchaser an unfair advantage of the agreement, and the outcome would certainly create barriers for licensing in Europe. Albeit not preventing the intact group licensed from being resold, the ruling of the CJEU will at least prevent purchasers from reselling redundant licenses in order to seek some recoupment of the initial purchase.

Furthermore, the CJEU granted right holders the possibility to employ technical protection such as DRM and product keys in order to safeguard that the transferred work will not be reproduced illegally.\textsuperscript{251}

With that said, there exist several methods for a right holder to limit resale. Since the CJEU prohibited split of group licensing, this could be a solution for right holders to limit resale by only selling licenses in bundles. Another

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{246} \textit{UsedSoft} (n 90) para 63.
\item \textsuperscript{248} Göbels (n 216) 228-29.
\item \textsuperscript{250} Göbels (n 216) 232.
\item \textsuperscript{251} \textit{UsedSoft} (n 90) para 79.
\end{itemize}
\end{footnotesize}
effective way would be to ensure that a transfer of ownership never takes place. Ergo, by stating that a licensee is entitled to use the software on month-by-month-basis in return for a recurring fee, it would be difficult for a court to interpret that license as a transfer of ownership. However, it is important to underline the fact that the revised license agreements cannot be sales in disguise. Hence they need to emphasize on the subscription based remuneration system granted for a specific time, but unfortunately, the CJEU did not provide examples on acceptable time length.

Another method launched by legal commentators is the transformation of software as goods into services, by having the software stored on the right holder’s servers which the user needs to access in order to use the program. This ‘cloud computing’ would be interpreted under the scope of the InfoSoc Directive instead of the Software Directive. However, this form of DRM will require the user to have connection to the Internet constantly, which can become disastrous for the reputation of a right holder if the connection fail, e.g. by an overload of users.

6.6.4 Resellers

Through the case of UsedSoft, the resellers of software are now performing a legal business, and the future status must be deemed as positive indeed. Since the CJEU has removed the doubts and confusion whether the practice was illegal or not, companies dealing with second-hand software should see an increase in costumers.

However, a problematic question remains. In order to make a copy eligible for resale, the owner must render it ‘unusable’. While not very troublesome from a legal perspective; the owner must extinguish all possibilities to access the software after transfer, the technical issue is de facto more intriguing.

One method could be the application of the ‘forward and delete’ system, which has been suggested in the US. This method will remove the copy from a reseller’s computer when transferred. However, this system requires extensive coding and management and may prove expensive.

As the CJEU acknowledged, another method could be to inter alia bind the copy with a product key which can be transferred. In order to download a

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252 Göbels (n 216 ) 232.
253 Ibid.
254 For instance, the US computer game distributor EA Games was voted to be ‘the worst company in the US’ mainly due to its problems with the always-online requirement of the game SimCity, having the result that several hundreds of thousands of users were unable to play the game. Peter Tassi, ‘EA Voted Worst Company in America, Again’ Forbes 9 April 2013 http://www.forbes.com/sites/insertcoin/2013/04/09/ea-voted-worst-company-in-amERICA-again/ (last visited 23 May 2013).
copy and use it, a purchaser needs to activate an account with a serial key. This key is the actual purchase, and the software can neither be downloaded without a legit key nor copied to another computer. These keys should be the target of resale. 256

What happens if the reseller has illicit attentions? In case of the reseller being a company such problems would probably not arise, due to the terrible impact on the reputation, however, private resellers may take advantage of the second-hand software, selling software without functioning keys. Nevertheless, this is not within the scope of copyright law to govern, as such conduct would be regarded as criminal.

The issue remains whether the current technology can fulfill the requirements of the CJEU. The system of serial keys is very interesting and the future will tell if such a solution will embrace the resellers.

6.6.5 Consumers

For the EU consumers, the initial reaction should be positive, as the judgment of UsedSoft confirms that ‘if you buy it, you own it’. A parallel market of used software should lead to better pricing of software as more competition will be at hand. 257 Additionally, several companies can recoup the cost of expensive business software by reselling it when no longer used. This can be very valuable inter alia in insolvency situations, where reselling software could help a liquidator secure more money to the creditors.

Whereas the concern of the CJEU over consumer protection is strong in the EU, the US counterparts apparently value the protection of right holders more, which the recent case law development illustrates. Several scholars are calling for the Congress to provide a legislative solution. 258 The future will tell if the Congress accepts the challenge.

Finally, as illustrated in 6.6.3, since the CJEU granted right holders to use technical measures in order to make copies unusable before sale, the result could be that more right holders will use DRM, which could result in a conflict of the right of free use. Moving software into cloud computing in order to transform them from goods into services can result in frustrating problems when the users cannot connect to the servers, e.g. to failed Internet connection. 259

6.7 US ‘nay’ or EU ‘yay’?

Comparing the EU and US case law regarding digital exhaustion, it is apparent that a discrepancy has been created when the legal system are moving towards two opposite interpretations of the potential applicability of

256 ibid.
257 Göbels (n 216) 229.
258 See (n 225).
259 c.f. (n 196).
exhaustion. The CJEU has continued on the road to remove obstacles from the free movement of goods and services in a digital environment, initiated in the *FAPL* case. The legal development in the US on the other hand has gone from legal disarray regarding the application of exhaustion of rights, the First Sale doctrine, on software licenses and digital goods, to a unified stance. Recent case law have determined that the First Sale doctrine do not apply in a digital context.

Regarding the ‘sale or license’ definition, it must be noted that in essence, the US courts and CJEU are examining the same thing; the transfer of ownership. However, the US courts put great emphasis on the specific provisions in a license agreement. While license agreements generally are good methods to promote innovation and to protect a right holder, enforcing EULA’s is not a satisfactory solution. Indeed, shrink-wrap or click-wrap licenses, which most EULA’s consist of, include an ‘acceptance’\(^{260}\) from a user to agree to the terms within. Nevertheless, the US courts should examine the contractual relationship in a similar way as the CJEU, because many software licenses should be closer to be regarded as sold rather than licensed.

Furthermore, the US refusal to apply the principle of exhaustion on digital transmissions in *ReDigi*, because it will result in the creation of unauthorized copies, cannot be compared totally adequate with the *UsedSoft* case, since *ReDigi* revolves around digital music files and not software as in *UsedSoft*.\(^{261}\) It is possible the CJEU would have come to the same conclusion as the US District Court regarding digital music. The CJEU will certainly address other digital works in the near future.

With that said, although some questions remain, the European stance is more preferable than the US, as long as the licenses in question are transfers of ownership and therefore are actually sold. The reason for this statement is that right holders cannot safely hide anymore behind license agreements and monopolistic software distribution when they are actually in fact selling goods, not services.

\(^{260}\) By clicking ‘I AGREE’ or tearing a wrapping, c.f. chapter 2.

\(^{261}\) See chapter 4.3 and 5.5.7.
7. Conclusion

The concept of exhaustion of right through first sale has emerged from case law in both the EU and the US. By limiting a right holder’s exclusive right when he/she puts goods with consent up for sale, the jurisdictions have tried to maintain a balanced market. The CJEU method of examining licenses is an adequate tool to classify them as sold or not. Most software licenses should be considered sold when a transfer of ownership has been stated. Leaving a product with granted use for an unlimited time in the possession of a consumer, in return for a lump sum, is similar to sale of physical goods, with the intangible nature as the only major difference. When a ‘license’ have all the characteristics of a sale, why should it not be counted as one? The right holders of software have enjoyed their exclusivity, but as the CJEU has found; it is time to make them subjects to the Internal Market.

With the judgment of UsedSoft, the CJEU seems to have provided the Community with a solution regarding the delicate matter of exhaustion of rights and intangible goods. Software stored upon physical medium, for instance a CD, have been accepted to fall under the principle of exhaustion, but intangible software has been regarded as outside the scope, due to literal interpretation of applicable legislation. Digital transmission as a service, or as a communication to the public, should apply to those circumstances were streaming is at hand, consequently, when the transmitted work is played directly in the user’s computer. On the other hand, when a copy is transferred as a file, irrespectively if it is a computer game, music or e-book, this should be labeled as a distribution. Instead of modernizing the concept of exhaustion as the CJEU did in UsedSoft, US courts have maintained that the principle is a creation of tangible transfers and should remain limited to such transmissions. Since software correctly have been regarded as sold by the CJEU, and thus distributed, it would have been strange to limit the principle of exhaustion to tangible transmission only.

While making the practice of reselling computer software legal, the CJEU has yet to decide whether the reasoning of UsedSoft can be extended to include other digital works such as music and e-books. However, it would be strange of the CJEU to exclude those works. Is there really a clear difference between computer programs and other similar digital works, if the ‘sale/license’-test launched by the CJEU is performed?

Furthermore, it is apparent that, in its current form, the InfoSoc Directive is struggling with the concept of a Digital Single Market and requires to be altered. The EU needs to decide whether it shall follow the more right holder-friendly solution adopted by the US or ascertain that the Internal Market has precedence.

The commercial implications of the UsedSoft case are that the market for second hand software is likely to expand rapidly. The software industry is faced with the challenge to comply with the standings of the CJEU, and it
will be very interesting to see which solution will be constructed. As right holders were given permission by the CJEU to use technical features in order to ascertain that a copy will be rendered unusable when resold, it is very likely that anti-circumvention technologies, such as DRM, will increase in use. However, right holders must carefully consider the chosen solution, as implementing an inadequate method may risk violating consumer protection and distorting competition. For instance, allowing all right holders to transform their software from goods into services by using cloud computing will remove every possibility to resell software. On the other hand, the suggestion to bind all sales of software with a serial key is an adequate solution that merely needs time to be developed and perfected. It remains to see which methods are regarded as acceptable by the CJEU.

Although the EU must await additional legal cases in order to clarify the remaining issues, it will be interesting to follow the application of the extended copyright exhaustion, which, after the case of UsedSoft now also entails reproduction to some extent. It is very likely that in the near future, purchasing second-hand Word on a website will not be more remarkable than purchasing a pair of second-hand Nike shoes in a physical store. The reign of monopolistic software licensing is over.
Supplement A

Software Directive

Article 4 states that:

1. Subject to the provisions of Articles 5 and 6, the exclusive rights of the rightholder within the meaning of Article 2 shall include the right to do or to authorize:
   
   a. the permanent or temporary reproduction of a computer by any means and in any form, in part or in whole; in so far as loading, displaying, running, transmission or storage of the computer program necessitate such reproduction, such acts shall be subject to authorization by the rightholder;
   
   b. the translation, adaption, arrangement and any other alteration of a computer program and the reproduction of the results thereof, without prejudice to the rights of the person who alters the program;
   
   c. any form of distribution to the public, including the rental, of the original computer program or of copies thereof.

2. The first sale in the Community of a copy of a program by the rightholder 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.

InfoSoc Directive

Article 3 states:

Right of communication to the public of works and right of making available to the public other subject-matter

1. Member States shall provide authors with the exclusive right to authorise or prohibit any communication to the public of their works, by wire or wireless means, including the making available to the public of their works in such a way that members of the public may access them from a place and at a time individually chosen by them.

2. Member States shall provide for the exclusive right to authorise or prohibit the making available to the public, by wire or wireless means, in such a way that members of the public may access them from a place and at a time individually chosen by them:
   
   (a) for performers, of fixations of their performances;
   
   (b) for phonogram producers, of their phonograms;
   
   (c) for the producers of the first fixations of films, of the original and copies of their films;
(d) for broadcasting organisations, of fixations of their broadcasts,
whether these broadcasts are transmitted by wire or over the air,
including by cable or satellite.

3. The rights referred to in paragraphs 1 and 2 shall not be exhausted by
any act of communication to the public or making available to the
public as set out in this Article.

Whereas Article 4 states:

Distribution right

1. 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.

2. The 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 rightholder or with his consent.
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