

## **COPYRIGHT AND DIGITAL EXHAUSTION, UNANSWERED QUESTIONS AND UNCERTAIN TREATMENT IN THE EU**

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### **ABSTRACT<sup>1</sup>**

In 2012 the Court of Justice of the European Union delivered a judgement dealing with second hand software and the so called digital exhaustion principle. It was heralded by some and criticised by others, however, despite providing a much awaited insight into the CJEU's interpretation of the digital world the judgment itself was based on some very creative interpretations of relatively old directives which did not quite tackle the uncertainty surrounding the issue of exhaustion. It's extension and interpretation of other forms of digital content remains unclear and the national courts seem to disagree amongst themselves and find some difficulty in interpreting the CJEU's judgment. The situation 4 years after the 2012 judgment is arguably the same, the single market requires clear indications as to whether exhaustion can be extended to digital goods or a clear cut negative response. The mind-set established by some commentaries which interpreted the CJEU's stance in the Allposters judgment to preclude digital exhaustion has been called into question by the Advocate General's opinion in the VOB case whose final judgment is eagerly awaited.

**KEYWORDS:** DIGITAL EXHAUSTION – DIGITAL COPYRIGHT – USED SOFTWARE – SECOND HAND SOFTWARE – DIGITAL GOODS

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<sup>1</sup> This article was reviewed by Dr Lena Sammut LL.D., LL.M. (Lond.)

# COPYRIGHT AND DIGITAL EXHAUSTION, UNANSWERED QUESTIONS AND UNCERTAIN TREATMENT IN THE EU

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## 1. Introduction

The principle of exhaustion is a standard feature of all forms of exploitation of goods. An object can, generally speaking and at face value, be freely disposed of according to the owner's wishes. However, if an object is a wrapper or incorporation of copyrighted material, the situation can become a bit more complex. When such an item is transferred with the consent of the copyright owner himself, this first transfer or sale shall have the effect of 'exhausting' the exclusive distribution right in respect of the work, or copy of the work, as the case may be. This means that the copyright owner's distribution right over the object is exhausted. The example of a book purchase will depict the principle in simple terms: Generally, a book is subject to copyright protection. However, no one would claim that a consumer who has bought the book from a store cannot resell the book or even lend it to a friend once he has finished reading it. The copyright owner's exclusive distribution right expires after the first lawful sale of the book. This, of course, does not mean that the reader can further exploit or sell the copyrighted material contained within the book such as by converting it into a film or some other exploitation of the copyrighted material, but he can sell or lend the material object within which the copyrighted material is contained. In this case, the physical book made of paper and binding is the physical wrapper to the copyrighted material within.

The digital era has contributed to the confusion surrounding this seemingly straightforward exhaustion principle, particularly because of the form of exploitation of copyright material in a digital environment, the prevalent form being licenses granting rights of use over various forms of content and media including e-books, films, music and also games. In the digital world, such copies, despite being termed as sales, are not actually sold but licensed for use. This means that before the decision in *Used Soft vs. Oracle*, a software program bought on a physical disc exhausted the creator's rights over that particular copy; however, the same program bought using a digital delivery system never exhausted the creator's rights, as it was immediately granted under license due to the apparent lack of the physical medium.

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In *Used Soft vs. Oracle*, the defendant company, a major software licensor, provided group licensing agreements for an unlimited period, granting a non-exclusive, non-transferable right to users. The plaintiff is a reseller of used software. In the case at hand, UsedSoft was purchasing unused licenses from clients of Oracle who had previously purchased bundle licenses from Oracle themselves. Oracle sells software licenses in bulk usually under some kind of bundle agreement and price however some clients would not necessarily require the amount of licenses provided in a bundle by Oracle. This means that some licenses would be unused by the original client. UsedSoft operates on a business method which purchases these unused software licenses and sells them on to other third parties. The CJEU held that generally speaking in the digital world, software contracts are classified as licenses or services. However, it also held that the making available of the program by Oracle for an unlimited period, together with the payment of a fee to unlock the usage, were to be taken as conducive to a first sale of the product within the European Union for the purposes of Article 4(2) of the Computer Programs Directive, which provides that,

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.<sup>3</sup>

However, four years may seem like an eternity in the ever-changing digital world, and it has indeed been that long since the CJEU delivered the infamous *UsedSoft* judgment in relation to digital exhaustion. Plenty of academics and practitioners commented in the aftermath of the decision, which due to the court's creative and controversial interpretation of the Copyright and Software Directives, was seen to pose more questions than it answered.

Following the answer given to the preliminary reference by the CJEU,<sup>4</sup> the Federal Court of Justice of Germany (Hereinafter referred as 'BGH') had to apply the principle of digital copyright exhaustion which the CJEU had decided. In addition, the BGH also established certain guidelines to help implement the digital exhaustion in practice.

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Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs [2009] OJ L118/16, art 4(2).

Described in more detail in Chapter 3 – Deo Falzon, 'Copyright Exploitation in the Digital World – Ownership, Licensing and the Consumer' (Doctor of Laws thesis, University of Malta 2015).

The BGH held that the distribution right of the right holder can only be exhausted when,

- a) Appropriate economic remuneration is achieved, namely when the right holder agrees to the download of the copy at a price which the right holder sets;
- b) The right holder has granted a perpetual licence (a principle which the CJEU had based its decision upon);
- c) Updates and improvements or patches must have been included in the contract between the right holder and original buyer for exhaustion to apply to such updates;
- d) The original copy must be rendered unusable;
- e) The lawful acquirer is only entitled to use the computer program in its intended manner;
- f) The burden of proving the exhaustion lays on the party claiming it.<sup>5</sup>

It has been claimed that these abstract guidelines could lead to somewhat differing interpretations of the principle of exhaustion.<sup>6</sup>

## 2. Applying *UsedSoft*

As predicted, the *UsedSoft* judgment gave impetus to other second hand software dealers to test the waters as regards the applicability of the principle of exhaustion, this time round contesting the terms and conditions imposed by the right holder, rather than being on the receiving end of a lawsuit. Susensoftware is a German company which has been selling used SAP software licences since 2001.<sup>7</sup> It trades solely in pre-owned but unused software products. This is achieved through the purchasing of unused software licenses from companies which would have bought software bundles, usually in the form of volume or bulk licensing methods, some of which may not have been utilised. Susensoftware sued SAP software, a global provider of enterprise application software used to standardise processes within companies. The action was based on a claim of unfair business practices being followed by SAP. SAP restricted the resale of SAP software through SAP's terms and conditions, namely through the

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Masa Savic. 'The legality of resale of digital content after *UsedSoft* in subsequent German and CJEU case law.' [2015] European Intellectual Property Review 414.  
ibid.

'About Us' (*susensoftware*) <<http://www.susensoftware.com/company/>> accessed 5 July 2016.

inclusion of a clause to the effect that ‘transfer of SAP software requires, in each case, the written consent of SAP.’<sup>8</sup>

Susensoftware therefore claimed that SAP was in breach of competition law since its terms and conditions tried to prohibit software resale, thereby going contrary to ownership and the exhaustion principle. The Hamburg court agreed and based its decision on *UsedSoft*.

The *SAP* judgment was particularly successful since the formula for the case was very similar to the previous *UsedSoft* decision and related to computer programs. The Court could therefore rely on the reasoning given by the CJEU in *UsedSoft* when it based its decision on the Software Directive. At first glance, the copyright exhaustion principle may seem to be an intellectual property right issue to be discussed *vis-à-vis* the rules and *raison d’être* of copyright. However, the more realistic interpretation of this issue is from a free movement and competition law angle. This approach is seen in the *UsedSoft* judgment itself. Various commentators have posed the question as to whether the reasoning adopted in *UsedSoft* is software specific, or whether it was merely the first of a branch of decisions by the CJEU seeking to grant exhaustion to digital goods. It has been claimed, however, that the Court-established concept of economic remuneration corresponding to the economic value of the copy will be the biggest barrier to digital exhaustion and prevent it from being applied to all digital goods across the board.<sup>9</sup> The claim that the *UsedSoft* case may spell a new era of digital exhaustion may also be short-lived especially when considering that the Copyright Directive covers the majority of digital content other than computer programs and the Court’s interpretation in *UsedSoft* did not rely on the latter Directive.<sup>10</sup>

### 3. Extending exhaustion – a national view

The German Courts faced a question concerning the applicability of the principle of exhaustion to another lucrative branch of digital goods; videogames. France, Germany, Italy, Spain and the UK accounted for almost thirty *per cent* (30%) of the global market of videogames with a valuation of fifteen point two billion US

‘News about second hand Software’ (*susensoftware*) <<http://www.susensoftware.com/news/news/4325376/legally-valid-judgment-against-sap/>> accessed 5 July 2016.

Paul L.C. Torremans, ‘The Future Implications of the Usedsoft Decision’ (2014) CREATE Working Paper Series.

<sup>10</sup> Emma Linklater, ‘UsedSoft and the Big Bang Theory: Is the e-Exhaustion Meteor about to Strike?’ (2014) 5 *Journal of Intellectual Property, Information Technology and Electronic Commerce Law* 12.

dollars (\$15.2 billion) in 2009.<sup>11</sup> The German case concerned an action filed by the consumer protection organisation **Vebraucherzentrale** (Hereinafter referred to as 'VBZ'), concerning clauses inserted in Valve's General Terms and Conditions prohibiting the transfer of user accounts between physical persons on the Steam digital distribution platform. Valve is a videogame publisher and developer which also operates a videogame online social network and marketplace called Steam. The following terms and conditions were being contested:

You may not sell or charge others for the right to use your Account, or otherwise transfer your Account, nor may you sell, charge others for the right to use, or transfer any Subscriptions other than if and as expressly permitted by this Agreement (including any Subscription Terms or Rules of Use) or as otherwise specifically permitted by Valve.

You are entitled to use the Content and Services for your own personal use, but you are not entitled to: (i) sell, grant a security interest in or transfer reproductions of the Content and Services to other parties in any way...<sup>12</sup>

Following **UsedSoft**, the VBZ argued that this policy goes against EU and German law, since it binds a user permanently to his account and forbids the sale of software purchased under this account.<sup>13</sup> The German Courts however held that **UsedSoft** would only apply in cases where the software was purchased entirely, downloaded and then played locally. The situation in the case of Steam was more akin to a service, while UsedSoft had separated service contracts from the sale of the software itself and had also excluded them from exhaustion. In addition to the fact that the question of exhaustion does not arise in the case of services and online services in particular, the Court also considered videogames as being more than just computer programs but rather as hybrid products due to their audiovisual and cinematographic content, which meant that they fell under the joint protection of the InfoSoc Directive, which necessitates a physical copy of a work for exhaustion to apply:

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<sup>11</sup> Grosheide FW, Roerdink H, and Thomas K, 'Intellectual Property Protection for Video Games: A View from the European Union' (2014) 9 *Journal of International Commercial Law and Technology* 1.

<sup>12</sup> 'Steam Subscriber Agreement' (*STEAM*) <[http://store.steampowered.com/subscriber\\_agreement/](http://store.steampowered.com/subscriber_agreement/)> accessed 5 July 2016.

<sup>13</sup> 'Valve under pressure for forbidding transfer of user accounts terms and conditions to be illegal' (*IHDE & PARTNER*) <<https://www.ihde.de/index.php/en/publications/current-articles/671-valve-under-pressure-for-forbidding-transfer-of-user-accountsterms-and-conditions-to-be-illegal>> accessed 6 July 2016.

Copyright protection under this Directive includes the exclusive right to control distribution of the work incorporated in a tangible article. The first sale in the Community of the original of a work or copies thereof by the right holder or with his consent exhausts the right to control resale of that object in the Community.<sup>14</sup>

Furthermore, Recital 29 of the same Directive provides that, 'the question of exhaustion does not arise in the case of services and on-line services in particular.'<sup>15</sup>

The CJEU later confirmed the view of the German Courts in *Nintendo vs. PC Box* when it established that the Computer Programs Directive only takes precedence over the InfoSoc Directive when the protected material falls solely within its scope. The *Nintendo* judgment has obliterated the fantasy that the CJEU might consider expanding the exhaustion concept to a wider range of digital products. The case concerned videogames which although are in part computer programs, also contain audiovisual components which fall under the exclusive protection of the InfoSoc Directive and therefore cannot submit to the same reasoning used by the Court in *UsedSoft* based solely on the Computer Programs Directive.

In accordance with Article 1(1) thereof, the protection offered by Directive 2009/24 is limited to computer programs.

As is apparent from the order of reference, videogames, such as those at issue in the main proceedings of the case, constitute complex matter comprising not only of a computer program but also graphic and sound elements, which, although encrypted in computer language, have a unique creative value which cannot be reduced to that encryption. In so far as the parts of a videogame, in this case, the graphic and sound elements, are part of its originality, they are protected, together with the entire work, by copyright in the context of the system established by Directive 2001/29.<sup>16</sup>

Other forms of digital content which are classified as solely artistic works such as e-books and audiobooks have also been explored and some seek to fit them in within the exhaustion principle. In this case, conflicting views exist between German and Dutch courts. A Dutch e-book case (*Tom Kabinet*) which is dealt with elaborately in section 3.6.1 of the thesis,<sup>17</sup> saw the Dutch Court grant exhaustion

<sup>14</sup> Directive 2001/29/EC on the harmonization of certain aspects of copyright and related rights in the information society [2001] OJ L167/10, Recital 28.

<sup>15</sup> *ibid* Recital 29.

<sup>16</sup> Case C-355/12 *Nintendo Co. Ltd and Others vs. PC Box Srl and 9Net Srl* [2014].

<sup>17</sup> Deo Falzon, 'Copyright Exploitation in the Digital World – Ownership, Licensing and the Consumer' (Doctor of Laws thesis, University of Malta 2015).

to e-books. This view was rejected in Germany in a case between the VBZ and an internet portal selling digital content.<sup>18</sup> The German Court held that the main consideration for this sort of consumer contract were facilitation and providing the possibility to use e-books to enable repetitive viewing of the files. Digital content provided in such cases differs from mere software which requires that customers are granted extensive use rights. The Copyright Directive specifically excludes exhaustion in the case of online content without a physical embodiment and in this case the situation was more akin to a communication to the public, which never submits to exhaustion, than to a distribution. The Court went with an interpretation based on analysing the legislators' intention when implementing the Copyright Directive and also made a differentiation between computer programs on one hand and e-books and audiobooks on the other. The latter two have little in common with computer programs, as they are not autonomous but rely on other programs to work on a specific operating system. *UsedSoft* applicability was here rejected under the reasoning based on a *lex specialis* interpretation, which meant that *UsedSoft* applied solely to computer programs and could not be transferred either directly or by analogy to other forms of digital content.

#### 4. Denying exhaustion – the *Allposters* issue

The CJEU delved into the issue of exhaustion once again in early 2015 in a case arising from a preliminary reference by the Appeal Court in Netherlands in *Art & Allposters International BV vs. Stichting Pictoright*.<sup>19</sup> The case itself is not primarily concerned with digital exhaustion; however academics have observed that the case gives insight into the CJEU's interpretation of this dubious topic and is, in any case, the most recent case concerning the topic which has been decided following *UsedSoft*.

Pictoright is an authors' collective rights organisation for visual creators and operates amongst other areas in reproduction rights such as posters and merchandising.<sup>20</sup> It is also authorised to take action against copyright infringement. Allposters is a web-based company selling amongst other items, posters showing the works of famous painters covered by copyright administered by Pictoright. It also offers the option of getting the same posters on a canvas instead of paper through a process it calls 'canvas transfer' which results in the destruction of the original paper poster. Pictoright opposed this, claiming that Allposters did not have the necessary rights and right holders'

<sup>18</sup> LG Bielefeld 4 O 191/11.

<sup>19</sup> Case C-419/13 *Art & Allposters International BV vs. Stichting Pictoright* [2015] (Not yet published).

<sup>20</sup> 'About Us' (*Pictoright*) <<http://www.pictoright.nl/english/>> accessed 6 July 2016.

consent for such a sale. The Dutch Courts at first did not uphold Pictoright's request, but later overturned the original decision and decided that where a copy of a work placed on the market by the right holder is distributed under another form which enables new opportunities for exploitation, there is a new publication. It rejected Allposters' claim that the distribution right had been exhausted under Article 4(2) of the InfoSoc Directive. Allposters appealed this decision and a preliminary ruling was sought on a number of questions. Firstly, the Court of Appeal questioned whether the distribution right in Article 4 of Directive 2001/29 covers a copyrighted work sold and delivered within the EEA in the event that the reproduction of that copyrighted work have subsequently undergone an alteration in its form and brought back into circulation. Secondly, should the distribution right cover an alteration to the reproduction, would it have an effect on whether exhaustion subsisted within the terms of Article 4(2)? Should the latter be answered in the affirmative, it would go on to ask for the criteria to be applied in order to determine whether an alternation exists for the purposes of hindering or interrupting exhaustion under Article 4(2). The CJEU considered that posters reproducing works covered by copyright administered by Pictoright were undoubtedly placed on the market with the latter's consent.

The disagreement arises as to whether exhaustion of the distribution right covers the tangible object into which a work or copy is incorporated or whether the author's own intellectual creation is exhausted, meaning his actual idea which is later embodied physically and subsequently, whether the alteration of the medium upon which the intellectual creation is embodied has any impact on exhaustion of the exclusive distribution right. In the case at hand, the tangible object into which the work is incorporated refers to the material posters. The author's own intellectual creation refers to the author's artistic creation.

The Court here made a rather shallow examination of the case at hand and arguably settled for a simple interpretation of the provisions and recitals within the InfoSoc Directive.<sup>21</sup> In response to the first issue contemplating whether the distribution right covers the tangible object into which a work is incorporated or the author's intellectual creation, the CJEU held that since Article 4(2) refers to the first sale or other transfer of ownership of that object, and Recital 28 states that copyright includes the exclusive right to control distribution of the work incorporated in a tangible article, this must mean that the distribution right in Article 4(2) covers the tangible object and not the self-standing intellectual creation of the author. In the CJEU's view, this interpretation was supported by Article 6 of the WIPO Copyright Treaty, which states that 'authors of literary and artistic works are to enjoy the exclusive right of authorising the making available

<sup>21</sup> Masa Savic. 'The CJEU Allposters case: beginning of the end of digital exhaustion?' [2015] 37 European Intellectual Property Review 378.

to the public of the original and copies of their works through sale or other transfer of ownership.<sup>22</sup>

Moreover, by an agreed statement concerning Article 6 and 7, the Court established that ‘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.’<sup>23</sup>

As to whether the object which has undergone alterations to its physical medium has an impact on exhaustion, the CJEU considered that the technique used in the alteration significantly increased the durability and quality of the reproduction, even producing a closer copy to the original. The argument that only one copy is made, and that the process results in an original being destroyed does not bear effect, according to the Court, on the fact that the object taken as a whole was altered and was not the original object which was authorised to be placed on the market by the right holder. The CJEU held that ‘in such an event, the distribution right of such an object is exhausted only upon the first sale or transfer of ownership of that new object with the consent of the right holder.’<sup>24</sup> This should also be considered *vis-à-vis* the remuneration due to right holders, which must be proportionate to the economic value of the exploitation of the protected work, which in the case of canvas transfers, significantly exceeds that of posters.

In summary, the answers to the original preliminary reference are as follows: Article 4 does provide an answer to the question of whether the distribution right of the copyright holder may be exercised in regards to the reproduction which has undergone an alteration in form. The fact that there has been an alteration means that exhaustion under Article 4(2) has also been interrupted. Thus, the *Allposters* case seems to indicate a prevention of transferring ownership of digital content if interpreted widely enough so as to cover intangible products.

## 5. A new hope – Dutch courage and an open-minded Advocate General

Further developments are also on the horizon, courtesy of the Dutch courts. The case in question is *Vereniging Openbare Bibliotheken (VOB) vs. Stichting Leenrecht*. VOB is an association of Dutch Libraries which is required by Dutch law to pay rental rights (the amount is determined by yet another body) to a copyright collecting society (the defendant in this case) due to materials which libraries lend being subject to copyright. The legal question in this case is

<sup>22</sup> WIPO Copyright Treaty, art 6.

<sup>23</sup> *ibid* arts 6-7.

<sup>24</sup> Case C-419/13 *Art & Allposters International BV vs. Stichting Pictoright* [2015] para 46.

whether the obligation also extends to e-book lending or not. VOB claims that the lending of e-books falls within the scope of the lending right given that the making available of e-books for an unlimited period of time constitutes a sale for the purposes of the distribution right and the lending of e-books by public libraries against payment to authors of a fair remuneration is not copyright infringement.

The Dutch Court referred to the CJEU. The preliminary reference asked whether the lending right under Directive 2006/115 is to be interpreted as covering a digital copy on a server which enables a user to download that copy for a fixed amount of time, after which the copy is no longer usable and in such a way that during that fixed amount of time, the digital copy will not be accessible to anyone else. The Advocate General's opinion has been released and Advocate Szpunar claims that the interpretation of the Resale Directive should meet the needs of today's society and must try to reconcile the various interests of the stakeholders. AG Szpunar makes it clear that legal acts should be given an interpretation which takes into account developments in technology, markets and behaviour and rigidity.<sup>25</sup> This is also known as the adoption of a technologically-neutral view. AG Szpunar claims that Directive 2001/29 in Recitals 2, 5 and 8 also provides that copyright must adapt to new developments and this surely cannot be achieved simply through a historic interpretation. Rather, 'the current law on copyright and related rights should be adapted and supplemented to respond adequately to economic realities such as new forms of exploitation.'<sup>26</sup>

**UsedSoft** is also mentioned in this case as a defence against an argument brought forward by NUV and the German and French governments that claimed that the lending of electronic books would bring forth a terminological incompatibility in the words 'copy' and 'object' which are given a tangible interpretation in the InfoSoc Directive. AG Szpunar however claims that if terminological consistency had to be followed rigorously, then, certain definitions of concepts given by the CJEU in **UsedSoft** to describe 'copies', 'sales' and 'distribution' within the context of Directive 2009/24/EC (The Computer Programs Directive) would have to be interpreted in the same light as in Directive 2001/29 (Info Soc Directive), which uses the same terminology. In **UsedSoft**, the CJEU held that a computer program downloaded from the Internet was a copy of a work and the download together with a perpetual user licence constituted a sale. Indeed, Article 4(2) of the Computer Programs Directive and the InfoSoc Directive are identical; yet,

<sup>25</sup> Case C-174/15 *Vereniging Openbare Bibliotheken vs. Stichting Leenrecht* [2016] Advocate General Szpunar Opinion.

<sup>26</sup> Directive 2001/29/EC on the harmonization of certain aspects of copyright and related rights in the information society [2001] OJ L167/10, Recital 5.

**UsedSoft** has still not been extended to other forms of digital content by national courts on the basis of the *lex specialis* interpretation mentioned previously in this article.

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 right holder or with his consent.<sup>27</sup>

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.<sup>28</sup>

Recital 29 of the InfoSoc Directive excludes exhaustion from applying to online services. However, a distinction should be made between services and digitally delivered goods. This is an issue which has also been discussed further in Chapter 3 of the thesis.<sup>29</sup> AG Szpunar also calls into question the suitability of the **Allposters** judgment to digital content which has been heralded widely as the end to an extension of the digital exhaustion first established in **UsedSoft**. He claims that the **Allposters** judgment is concerned with material processes rather than with digital ones. Although through a technologically neutral perspective it discussed the exhaustion of tangible articles, rather than of the author's intellectual creation, this should not be equated to the preclusion of exhaustion after a transfer of ownership in a digital copy of the work. In **Allposters**, the Court rejected the view that an author's intellectual creation can be exhausted, and rightly so; however, that decision should be able to co-exist with the exhaustion of a digital product granted perpetually and legally which has been transferred to a new owner. The author's intellectual creation in this way is not subjected to exhaustion as the transferring of the copy does not mean that the original proprietor can keep the copy. In fact, the very lexicon of the words used to describe these abstract notions points to tangibility through words such as 'keep' and 'copy'. The prevalence of the digital world should enable the application of such concepts in a technologically neutral manner as they increasingly form a greater part of society in general.

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<sup>27</sup> *ibid* art 4(2).

<sup>28</sup> Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs [2009] OJ L118/16, art 4(2).

<sup>29</sup> Deo Falzon, 'Copyright Exploitation in the Digital World – Ownership, Licensing and the Consumer' (Doctor of Laws thesis, University of Malta 2015).

If it is argued that if the lending right covers such a situation, the obvious question that comes to mind is whether Member States can subject the derogation right in Article 6 of Directive 2006/115 to a requirement that the copy of the work made available has already been put into circulation by a first sale or other transfer of ownership. The Dutch Court argues that should this also be answered in the affirmative, the question should also be asked as to whether Article 4(2) of Directive 2001/29 is to be interpreted as meaning that the first sale or other transfer of ownership includes the making available for use for an unlimited period a digital copy of books. This would have a significant effect on exhaustion under EU law, if it were to be answered directly by the CJEU. Unfortunately, its introduction into the preliminary reference was deemed unnecessary by the Advocate General, since the lending right is extraneous to the exhaustion of the distribution right and here the referring Court may have made the mistake of associating the intellectual creation with the digital copy. The fact that a digital copy is sold and perhaps exhausted does not mean that a lending or rental right has been granted. In fact, this would still require the consent of the right holder since it is not sufficient to purchase a copy of a work in order to lend it publicly or rent it freely, 'The exclusive right to authorise or prohibit rental and lending shall belong to the following: a) the author in respect of the original and copies of his work.'<sup>30</sup>

In its judgment the CJEU held that Directive 2006/115 on the resale and lending rights excludes intangible objects from the rental rights however the same directive does not exclude digital lending in certain cases.<sup>31</sup> The CJEU also reiterates the argument of the Attorney General's opinion and quotes Recital 4 of the Rental Rights directive itself which also states that 'copyright must adapt to new economic developments such as new forms of exploitation.'<sup>32</sup> The main dispute in the case concerned the lending of books in digital format and the court held that the concept of lending can fall within the meaning of the provisions of Directive 2006/115 when a copy is placed on a publicly accessible server operated by the public library and a user can download a copy of that book, provided that this is only done for a limited amount of time which is subject to expiration and no other user may be able to concurrently access the lent book. This equates the situation of digital lending with that of traditional tangible lending, made possible through advancements in Digital Rights Management technology which ensure that a digital copy is protected from the major piracy attempts. The judgment itself is of limited appeal to digital exhaustion

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<sup>30</sup> Directive 2006/115/EC of the European Parliament and of the Council of 12 December 2006 on rental right and lending right and on certain rights related to copyright in the field of intellectual property [2006] OJ L 376/28, art 3.

<sup>31</sup> Case C-174/15 *Vereniging Openbare Bibliotheken vs. Stichting Leenrecht* [2016]

<sup>32</sup> *ibid* recital 4

particularly since it does not delve into the issue of whether e-books granted for an unlimited time are equated to a sale and consequently ensuring the exhaustion of that particular copy. This issue has already been identified above in the analysis about the Advocate General's opinion and in fact, the judgment follows the opinion to the letter. Despite the positive outcome of the judgment for e-lending rights, a problem can arise in a situation where e-books are prohibited from being lent under the original license since the CJEU held that libraries can only lend e-books without a license as long as the digital copy of a book made available by the library was put into circulation on the market or obtained by the library through a first sale or other transfer of ownership in the European Union. This is actually rarely the case as most forms of digital content is licensed for use rather than actually transferred with full ownership rights thus making the digital exhaustion point of this issue rather moot.

## 6. Conclusion

It is clear that courts which have implemented the *UsedSoft* decision until now have only done so reluctantly. This may be attributed to the power of the right holders' lobby groups at Member State level or alternatively the fact that the original judgment was based on some creative interpretations which courts have found difficulty in applying in congruent situations, let alone to other forms of digital content. The defence against applying the decision to forms of software other than computer programs has been based upon the hybrid nature of the specific software which, due to the CJEU's reliance on the Computer Programs Directive in *UsedSoft*, can be sometimes justified. However, national courts have also sometimes resorted to justify it on the basis of the appearance of some online marketplaces seen to offer a service, rather than a sale of goods. The courts have not clearly indicated how an online marketplace can be classified as a service provider.

What features must be added to a marketplace to successfully disguise it as a service provider? The German Court in *VBZ vs. Valve* claimed that certain matchmaking and updates offered by Valve, as well as the server infrastructure Valve had to maintain to offer the product, coupled with the fact that a constant Internet connection was required to use the software, meant that this was a service. The accuracy of these findings can be contested in certain terms; (i) The server infrastructure Valve maintains to offer downloads can be equated to the expenses that a traditional brick and mortar store has to face in order to offer tangible products for sale and which Oracle themselves underwent to provide an online download of their software in the *UsedSoft* decision, (ii) The fact that a constant Internet connection is required is merely a method of security or at times an entirely optional feature of interoperability with other users which the

user may choose to forgo, (iii) The program itself would still be run on a user's local machine, and (iv) In situations such as game streaming, the user would be streaming the software which is running on the provider's servers remotely and this would successfully be labelled as streaming. However, that was not the case in the VBZ scenario and Valve themselves do not offer that service yet, apart from a feature which still requires a user's own machine to do the heavy lifting. Courts can sometimes get side-tracked by claims made by right holders who seek to get the best of both worlds: They rely on online delivery to avoid store inventory discount practices and consequently preclude the resale of their software.

A clearer interpretation by the CJEU is the only method in which this issue can ever be put to rest, aside from an improbable piece of legislative intervention. If the digital and online world seeks to replace the traditional tangible one, it should accept similar notions of intellectual property regulation rather than use its invisible and abstract nature to confuse itself with the intangible intellectual creation which by necessity is to be encapsulated in a material refer<sup>33</sup> for recognition and fixation.

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<sup>33</sup> reification (ree-a-fi-kay-sh.m), n. (1846) 1. Mental conversion of an abstract concept into a material thing.