
WAKE FOREST JOURNAL OF BUSINESS
AND INTELLECTUAL PROPERTY LAW

VOLUME 16

WINTER 2015

NUMBER 2

USEDSoft AND ITS AFTERMATH: THE RESALE OF
DIGITAL CONTENT IN THE EUROPEAN UNION

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I. INTRODUCTION

The biggest challenge for the European Union copyright law today is applying traditional copyright doctrines to the digital world. The prime example is the issue whether the acquirer of copyrighted digital content can resell the protected work without the authorization of the copyright holder. Courts, scholars and practitioners have discussed this problem for a decade now.

Due to the ubiquity of high-speed internet connections and the ease of carrying out transactions online, more and more copyright holders have come to rely on digital distribution channels for delivering copies of purchased works to their customers.¹ Many of them use clauses in their terms and conditions that suppress the second-hand market for these works.² Competition issues between “new” and “used” digital content arise because the functionalities of copies of “used” digital goods are usually the same as they were when the good was originally distributed in the sense that no degradation can be expected to have occurred over time.³ Copies of used digital content can therefore retain their value and compete on price in secondary markets with digital goods distributed for the first time by owners.⁴ The question of whether such a secondary market can be suppressed by the right holder will be answered by the doctrine of exhaustion.

Three different scenarios need to be looked at in order to understand the issue of whether the doctrine of exhaustion can be applied in the digital world. First, a consumer walks into a bookstore and buys the physical copy of a book. Second, the same consumer buys the same work as an e-book and downloads the book from the website of an online store. Third, the consumer buys software from the same online store and downloads the software from the website, without receiving the software on a CD or DVD.

In the first scenario, the application of the principle of exhaustion of the copyright holder’s distribution right is straightforward: It is recognized that the copyright holder, by introducing a copy of the book

¹ Yin Harn Lee, *UsedSoft GmbH v. Oracle International Corp (Case C-128/11)—Sales of “Used” Software and the Principle of Exhaustion*, INT’L REVIEW OF INTELLECTUAL PROP. AND COMPETITION LAW 846, 847 (2012); Michael Neuber, *Online-Erschöpfung doch nur für Software? [Online Exhaustion Only for Software?]*, WETTBEWERB IN RECHT UND PRAXIS (WRP) 1274 (2014).

² Neuber, *supra* note 1, at 1274.

³ Ronny Hauck, *Gebrauchthandel mit digitalen Gütern [Trade of Used Digital Goods]*, NEUE JURISTISCHE WOCHENSCHRIFT (NJW) 3616, 3617 (2014); Louis Longdin, *Inexhaustible Distribution Rights for Copyright Owners and the Foreclosure of Secondary Markets for Used Software*, IIC 541, 542 (2013); Neuber, *supra* note 1, at 1274.

⁴ Longdin, *supra* note 3, at 542.

for sale into a particular market, has exhausted his right to control the further distribution of that copy within the relevant market.⁵ In the second and third fact pattern, the applicability of the principle of exhaustion is much less clear cut, as is the corresponding right of the first acquirer to resell his copy of the e-book or software.⁶

This Note will analyze the possibility of a second-hand market for used digital content and the applicability of the doctrine of exhaustion in the digital realm. The thesis of this Note is that the doctrine of exhaustion should be applied to software as well as other digital content in order to open the door for a secondary market for used digital content. This Note commences with a brief overview of the doctrine of exhaustion in European copyright law and the rationales for and against a second-hand market for digital content. Then the Note turns to the resale of software and focuses on the CJEU's *UsedSoft* decision. Next, it discusses whether the CJEU's *UsedSoft* decision can be applied to digital content other than software. Finally, the Note will take a quick glance at United States case law.

II. THE DOCTRINE OF EXHAUSTION IN EUROPEAN COPYRIGHT LAW

The doctrine of exhaustion is a legal concept in the European Union copyright law that limits certain rights of a copyright holder.⁷ This is necessary since two property rights are at play: the “ownership of a copyright” and the “ownership of a material object.”⁸ Under the doctrine of exhaustion, the “owners’ rights to control the distribution of tangible items embodying their intellectual property is exhausted once a sale has been made to an original purchaser.”⁹

Exhaustion aims “to strike a balance between the necessary protection of intellectual property rights, which notionally confer on their holders a monopoly on exploitation, and the requirements of the

⁵ Jochen Marly, *Der Handel mit so genannter “Gebrauchtsoftware”* [The Trade of So Called “Used Software”], EUROPÄISCHE ZEITSCHRIFT FÜR WIRTSCHAFTSRECHT (EUZW) 654, 655 (2012); Til Kreutzer, *Was das EuGH-Urteil zu Gebrauchtsoftware bedeutet* [What Does the CJEU Judgment about Used Software Mean?], GOLEM (Apr. 7, 2012), available at <http://www.golem.de/news/analyse-was-das-eugh-urteil-zu-gebrauchtsoftware-bedeutet-1207-92960.html>.

⁶ Hauck, *supra* note 3, at 3617; Kreutzer, *supra* note 5; Lee, *supra* note 1, at 847.

⁷ Emma Gallacher & Sean Jauss, *The Principle of Exhaustion*, MEWBURN ELLIS LLP (Jan. 31, 2014), available at <http://www.lexology.com/library/detail.aspx?g=29f0d605-aae8-4163-966b-3d2acb0ba3a3>.

⁸ Longdin, *supra* note 3, at 543.

⁹ *Id.*

free movement of goods.”¹⁰ That principle, which limits the exclusive right of the intellectual property right holder to be the first to put into circulation the product covered by the right in question, is the expression of the legal notion that that right does not make it possible to prevent the distribution of an authentic product once it has been placed on the market.¹¹

The rule is justified, economically, by the consideration that the holder of parallel rights must not profit unduly from the exploitation of his right, which would be the case if he could benefit from the economic advantage conferred on him by that right every time an EU internal frontier is crossed.¹²

“The copyright holder receives a reward for his or her labor at the point of first sale”¹³; any further downstream control of distribution would arguably be exerting an ownership right over the material object itself and not simply ownership of the copyright.¹⁴

The exhaustion principle was adopted by the European Union legislature into a number of directives, in particular the Information Society Directive¹⁵ (hereinafter: InfoSoc Directive) and the Software Directive.¹⁶

The InfoSoc Directive is designed to implement the obligations of the European Community under the World Copyright Treaty¹⁷ (hereinafter: WCT) and came into effect on June 22, 2001.¹⁸ The Directive makes a clear distinction between online dissemination on the one hand (communication to the public right in Article 3 of the InfoSoc

¹⁰ See Opinion of Advocate General Bot in CJEU, Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.*, delivered on Apr. 24, 2012, at § 43.

¹¹ *Id.*; Neuber, *supra* note 1, at 1274; Martin Senfleben, *Die Fortschreibung des urheberrechtlichen Erschöpfungsgrundsatzes im digitalen Umfeld – Die UsedSoft-Entscheidung des EuGH* [The Continuation of the Copyright Doctrine of Exhaustion in the Digital World – The CJEU *UsedSoft* Decision], NJW 2924, 2924 (2012).

¹² See Opinion of Advocate General Bot in CJEU, Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.*, delivered on Apr. 24, 2012, at § 45.

¹³ Gallacher & Jauss, *supra* note 7.

¹⁴ *Id.*

¹⁵ Directive 2001/29, of the European Parliament and of the Council of 22 May 2001 on the Harmonisation of Certain Aspects of Copyright and Related Rights in the Information Society, (O.J. 2001 L 167 p.12) [hereinafter InfoSoc Directive].

¹⁶ Article 4 of Directive 2009/24/EC, of the European Parliament and the Council of 23 April 2009 on the Legal Protection of Computer Programs (O.J. 2009 L 111, p.18) [hereinafter Software Directive].

¹⁷ World Intellectual Property Organization, World Copyright Treaty, Dec. 20, 1996, 36 ILM 65.

¹⁸ InfoSoc Directive, *supra* note 15, at art. 14.

Directive) and distribution of the material object on the other hand (distribution right in Article 4 of the InfoSoc Directive).¹⁹ Article 3(3) of the InfoSoc Directive says that the communication to the public right is not exhausted.²⁰ Article 4(2) states that the distribution right is exhausted if there is a first sale or other transfer of ownership in the Community in respect to the original or copies of the work.²¹ Additionally, Recital 28 to the InfoSoc Directive refers expressly to the “exclusive right to control distribution of the work *incorporated in a tangible article*.”²² According to Recital 29 to the InfoSoc Directive,

The question of exhaustion does not arise in the case of services and on-line services in particular. . . . 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.²³

The Software Directive deals with the legal protection of computer programs.²⁴ Directive 91/250²⁵ first came into force on May 14, 1991, and was replaced by Directive 2009/24²⁶ on April 23, 2009, following various minor amendments over the years. The Software Directive ensures that computer programs are protected by copyright as literary works and establishes several rights for computer programs, including distribution and reproduction rights.²⁷ “It does not make any clear distinctions between online and offline delivery.”²⁸ “This may be because online delivery was not a common occurrence in 1991.”²⁹ Article 4(2) of the Software Directive establishes a broader exhaustion rule: “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.”³⁰ Article 5(1) of the Software Directive includes the exemption that the reproduction of a computer

¹⁹ *Id.* at arts. 3–4, p. 16.

²⁰ *Id.* at art. 3, p. 16.

²¹ *Id.* at art. 4, p. 16.

²² *Id.* at 12 (emphasis added).

²³ *Id.*

²⁴ Directive 91/250/EEC, (OJ 1991 L 122, p.42).

²⁵ *Id.*

²⁶ Software Directive, *supra* note 16, at art. 11.

²⁷ *Id.* at art. 1.

²⁸ Ellen Franziska Schulze, *Resale of Digital Content Such as Music, Films or eBooks Under European Law*, 36 EUR. INTEL. PROP. REV. 9, 10 (2014).

²⁹ *Id.*

³⁰ Software Directive, *supra* note 16, at art. 4.

program “shall not require authorization by the right holder where they are necessary for the use of the computer program by the lawful acquirer in accordance with its intended purpose.”³¹

III. RATIONALES FOR AND AGAINST A SECOND-HAND MARKET FOR DIGITAL CONTENT

The traditional doctrine of exhaustion was first established when no one could even think of distributing a copyrighted work solely in an intangible form. However, this is the reality in today’s world. Many protected works—whether it is music, films, books or software—are purchased solely in an intangible form. Therefore, the issue arises whether the traditional doctrine of exhaustion can be applied in the digital world in order to open a second-hand market for digital content.

There are various policy arguments that can be made for and against a second-hand market for digital content.

On the one hand, the copyright holder wants to prevent a second-hand market for digital content due to four reasons. First, the copyright holder has the exclusive right of distribution.³² If there is no second-hand market for his products, there is no competition for him, and his sales will increase.³³ Second, a ban on the transfer of the work allows optimal price strategies, such as reduced pricing for students or educational institutions.³⁴ Third, there “might be lower prices for all consumers by spreading costs among a large number of purchasers.”³⁵ Fourth, allowing copyright holders to bring infringement actions against unauthorized resellers might reduce incidences of product piracy.³⁶

On the other hand, the acquirer of a copyrighted work will argue for a broad interpretation of the doctrine of exhaustion in order to open the door to a second-hand market for digital content. There are three major arguments for a second-hand market in the digital realm. First, the acquirer should be able to fully dispose of his property.³⁷ “Restrictions of the resale of copies of a digital work might not vindicate the law’s general aversion to restraints on alienation of personal property.”³⁸

³¹ *Id.* at art. 5, p. 18.

³² Senftleben, *supra* note 11, at 2924.

³³ Marly, *supra* note 5, at 655.

³⁴ *Id.*; Peter Ganea, *Ökonomische Aspekte der urheberrechtlichen Erschöpfung* [*Economic Aspects of the Doctrine of Exhaustion in Copyright Law*], GEWERBERLICHER RECHTSSCHUTZ UND URHEBERRECHT INTERNATIONALER TEIL (GRUR Int.) 102, 103 (2005).

³⁵ *Cf.* *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1114–15 (9th Cir. 2010).

³⁶ *Id.* at 1115.

³⁷ ULRICH LOEWENHEIM, *HANDBUCH DES URHEBERRECHTS* [*HANDBOOK ON COPYRIGHT LAW*], § 20 no. 33 (2010).

³⁸ *Vernor*, 621 F.3d at 1115.

Second, the application of the doctrine of exhaustion would create clear legal relationships for the transfer of the property of a good.³⁹ Third, a second-hand market for digital content “contributes to the public good by (1) giving consumers additional opportunities to purchase and sell copyrighted works, often at below-retail prices, (2) allowing consumers to obtain copies of works after a copyright holder has ceased distribution, and (3) allowing the proliferation of businesses.”⁴⁰

These arguments show that the interests of the copyright holders and acquirers of protected content collide even more in the digital world than in the analogue world and a balancing act between these interests is required.

IV. THE RESALE OF SOFTWARE

A. The Situation in Europe prior to *Oracle v. UsedSoft*

In its *UsedSoft* decision, the CJEU had to consider whether the first acquirer of software could resell it.⁴¹ Prior to the decision, there was a discussion whether the right of distribution was exhausted if no tangible copy of the software was distributed, but the customer instead received access to download the software.⁴²

On the one hand it has been argued that the doctrine of exhaustion does not apply in this case since the wording of Article 4(2) of the Software Directive requires a tangible copy of the work.⁴³ Additionally, an analogous application of Article 4(2) of the Software Directive was rejected because it is an exemption that should be applied restrictively.⁴⁴

On the other hand, it has been argued that the sale of a computer program on a CD-ROM or DVD and the sale of a program by downloading from the internet are similar—from an economic and from a legal point of view.⁴⁵

³⁹ LOEWENHEIM, *supra* note 37, at § 20 no. 33.

⁴⁰ *Vernor*, 621 F.3d at 1115.

⁴¹ CJEU, Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.*, Judgment of the Court (Grand Chamber) of July 3, 2012, 2012 E.C.R. 407, at § 47.

⁴² *Id.*

⁴³ Thomas Hoeren & Matthias Försterling, *Onlinevertrieb “gebrauchter” Software – Hintergründe und Konsequenzen der EuGH-Entscheidung “UsedSoft”* [*The Online Sale of “Used” Software – Background and Consequences of the CJEU “UsedSoft” Decision*], MULTIMEDIA UND RECHT (MMR) 642 (2012).

⁴⁴ Landgericht [Regional Court] Munich I, Germany, Mar. 15, 2007, 7 O 7061/06, MMR 328, 330 (2007).

⁴⁵ Hoeren & Försterling, *supra* note 43, at 642; Malte Grützmacher, “Gebrauchtsoftware” und Erschöpfungslehre: Zu den Rahmenbedingungen eines Second-Hand-Marktes für Software [*“Used Software” and the Doctrine of*

continued . . .

To limit the application of the principle of exhaustion of the distribution right solely to copies of computer programs that are sold in a material medium would allow the copyright holder to control the resale of copies downloaded from the internet and to demand further remuneration on the occasion of each new sale, even though the first sale of the copy had already enabled the right holder to obtain an appropriate remuneration.⁴⁶

B. The CJEU Judgment *Oracle v. UsedSoft*

1. Facts

Oracle develops and markets computer software. Oracle distributes the software at issue in eighty-five percent of the cases by downloading from the internet. The customer downloads a copy of the software directly to his computer from Oracle's website. The software is what is known as "client-server-software." The user right for such a program, which is granted by a license agreement, includes the right to store a copy of the program permanently on a server and to allow a certain number of users to access it by downloading it to the main memory of their work-station computers.⁴⁷

Oracle offers group licenses for the software for a maximum of twenty-five users each.⁴⁸ For example, a customer requiring licenses for twenty-seven users would have to buy two licenses, which would cover up to fifty users.⁴⁹

Oracle's license agreements for the software contain the following term: "*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.*"⁵⁰ Based on a maintenance agreement, "updated versions of the software ('updates') and programs for correcting faults ('patches') can be downloaded from Oracle's website."⁵¹

Exhaustion: The Requirements of a Second-Hand Market for Software], ZEITSCHRIFT FÜR URHEBER-UND MEIDEINRECHT (ZUM) (2006), 302 (305).

⁴⁶ Grützmacher, *supra* note 45, at 305.

⁴⁷ *UsedSoft GmbH*, 2012 E.C.R. 407, at § 20–21.

⁴⁸ *Id.* at § 22.

⁴⁹ *Id.*

⁵⁰ *Id.* at § 23 (emphasis added).

⁵¹ *Id.* at § 21.

UsedSoft markets used software licenses, including user licenses for the Oracle computer program at issue. For that purpose, UsedSoft acquires from customers of Oracle such user licenses, or parts of them, where the original licenses relate to a greater number of users than required by the first acquirer. In October 2005, UsedSoft promoted an “Oracle Special Offer.”⁵²

Oracle objected to the practice of UsedSoft and brought proceedings for copyright infringement in the Regional Court Munich I.⁵³ That court allowed Oracle’s application.⁵⁴ UsedSoft’s appeal against the decision was dismissed.⁵⁵ UsedSoft thereupon appealed on a point of law to the German Federal Court of Justice, which referred the following questions to the CJEU on February 3, 2011:⁵⁶

1. Is the person who can rely on exhaustion of the right to distribute a copy of a computer program a “lawful acquirer” within the meaning of Article 5(1) of the Software Directive?
2. If the reply to the first question is in the affirmative: Is the right to distribute a copy of a computer exhausted in accordance with the first half-sentence of Article 4(2) of the Software Directive when the acquirer has made the copy with the right holder’s consent by downloading the program from the internet onto a data carrier?
3. If the reply to the second question is also in the affirmative: 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 Software Directive also rely on exhaustion of the right to distribute the copy of the computer program made by the first acquirer with the right holder’s consent by downloading the program from the internet onto a

⁵² *Id.* at §§ 24-25.

⁵³ *Id.* at § 27.

⁵⁴ Landgericht [Regional Court] Munich, Germany, Mar. 15, 2007, 7 O 7061/06, MMR 328, 330 (2007).

⁵⁵ Oberlandesgericht [Court of Appeals] Munich, Germany, July 3, 2008, 6 U 2759/07, MMR 601 (2008).

⁵⁶ Bundesgerichtshof [Federal Court of Justice], Germany, Feb. 2, 2011, I ZR 129/08, MMR 305 (2011).

data carrier if the first acquirer has erased his program copy or no longer uses it?⁵⁷

The case was allocated to the Grand Chamber of the CJEU (“indicating that the case was regarded as particularly complex or important”⁵⁸) and was heard on March 6, 2012. The European Commission, Spain, France, Italy and Ireland supported Oracle’s position.⁵⁹

2. *Opinion of the Advocate General Bot*

On April 24, 2012, Advocate General Yves Bot delivered his Opinion which stated that the copyright in a copy of a computer program is exhausted where the right holder allowed the copy to be downloaded from the internet to a data carrier and granted, for consideration of a lump-sum payment, the right to use that copy for an unlimited period of time.⁶⁰ Nonetheless, AG Bot continued his analysis to conclude that the sale of the copy of the program only exhausted the distribution right and did not exhaust the reproduction right.⁶¹ Moreover, he found that the concept of the “lawful acquirer” who had the right to reproduce under Article 5(1) of the Software Directive was restricted to someone who had acquired a copy of the program under a contract with the copyright holder.⁶² Therefore, he concluded that a subsequent acquirer could only use a program already incorporated into a data carrier by the original acquirer and could not make a fresh copy, regardless whether the original purchaser erased his copy or no longer used it.⁶³

3. *Judgment of the CJEU*

The Grand Chamber’s judgment was handed down on July 3, 2012.⁶⁴ Although it considered the questions in the same order as the Advocate General, and generally agreed with his conclusions on the second question, it took a different view on the first and third

⁵⁷ *UsedSoft GmbH*, 2012 E.C.R. 407, at § 34.

⁵⁸ Christopher Stothers, *When Is Copyright Exhausted by a Software License?: UsedSoft v. Oracle*, 34(11) EUR. INTEL. PROP. REV. 787, 788 (2012).

⁵⁹ *UsedSoft GmbH*, 2012 E.C.R. 407.

⁶⁰ Opinion of Advocate General Bot in CJEU, Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.*, delivered on Apr. 24, 2012, at § 84.

⁶¹ *Id.* at § 97.

⁶² *Id.* at § 98.

⁶³ *Id.* at § 100.

⁶⁴ *UsedSoft GmbH*, 2012 E.C.R. 407.

questions.⁶⁵

a. Exhaustion and the Right of Distribution

The CJEU held that the right of distribution of a copy of a computer program is exhausted if the copyright holder who has authorized the downloading of that copy from the internet onto a data carrier has also conferred, in return for payment of a fee intended to enable him to obtain a remuneration corresponding to the economic value of the copy of the work of which he is the proprietor, a right to use that copy for an unlimited period.⁶⁶

Accordingly, the following three factors must be fulfilled for an exhaustion of the right of distribution:⁶⁷

First, there must be a “sale” in accordance with Article 4(2) of the Software Directive.⁶⁸ According to the CJEU, a sale is “an agreement by which a person, in return for payment, transfers to another person his rights of ownership in an item of tangible or intangible property belonging to him.”⁶⁹ The CJEU chose to broadly interpret the term “sale” to encompass all forms of product marketing.⁷⁰ A more narrow interpretation would undermine the effectiveness of Article 4(2) of the Software Directive because suppliers would merely have to call a contract a “license” rather than a “sale” in order to circumvent the rule of exhaustion and divest it of all scope.⁷¹

Under the second factor in the exhaustion analysis, the copyright holder must receive the payment of a fee in order to be able to “obtain an appropriate remuneration.”⁷² Here, the court refers to the principle of participation.⁷³ According to the principle of participation, the copyright holder should have a reasonable share in the exploitation of his or her work.⁷⁴ Due to the effect of the doctrine of exhaustion, the copyright holder must calculate the fee in a way so that he already receives a reasonable remuneration by the first sale of the copy.⁷⁵ “A

⁶⁵ *Id.* at § 89.

⁶⁶ *Id.* at § 72.

⁶⁷ *Id.* at §§ 35 et seq.

⁶⁸ *Id.* at § 38.

⁶⁹ *Id.* at § 42.

⁷⁰ *Id.* at § 49.

⁷¹ *Id.*

⁷² *Id.* at § 63.

⁷³ *See id.*

⁷⁴ Bundesgerichtshof [Federal Court of Justice] Oct. 28, 2010, I ZR 18/09, ZUM 141, at § 19 (2012); THOMAS DREIER & GERNOT SCHULZE, URHEBERRECHTSGESETZ [COPYRIGHT ACT], § 11 no. 8 (2013).

⁷⁵ Thomas Hartmann, *Weiterverkauf und “Verleih” Online Verriebener Inhalte [Resale and “Rental” of Digital Content]*, GRUR INT. 980, 981 (2012).

restriction of the resale of copies of computer programs downloaded from the internet” by allowing the copyright holder to demand further remuneration on the occasion of each new sale “would go beyond what is necessary to safeguard the specific subject-matter of the intellectual property concerned.”⁷⁶

Third, the principle of exhaustion requires the transfer of ownership of the copy of the computer program.⁷⁷ The CJEU held that the ownership of the copy is transferred because the copyright holder grants a right to use the copy for an unlimited period.⁷⁸ The scope of the license, in particular whether it is an exclusive or non-exclusive license, is irrelevant.⁷⁹

b. Exhaustion and the Right of Reproduction

According to the UsedSoft system, the first acquirer does not forward the original copy to the second acquirer.⁸⁰ Instead he downloads a copy of the program directly from Oracle’s website.⁸¹ This download, however, does not concern the right of distribution, but rather the right of reproduction.⁸² The doctrine of exhaustion does not apply with regard to the right of reproduction.⁸³ Due to this reason, Advocate General Bot rejected UsedSoft’s system.⁸⁴

The CJEU found the solution to this issue in Article 5(1) of the Software Directive.⁸⁵ “Since the copyright holder cannot object to the resale of a copy of a computer program for which that right holder’s distribution right is exhausted under Article 4(2) of the Software Directive”, the court concludes that “a second acquirer of that copy and any subsequent acquirer are ‘lawful acquirers’ of it within the meaning of Article 5(1) of the Software Directive.”⁸⁶ The court does not accept the argument put forward by Oracle that the concept of “lawful acquirer” in Article 5(1) of the Software Directive relates only to an acquirer who is authorized, under a license agreement concluded

⁷⁶ See *UsedSoft GmbH*, 2012 E.C.R. 407, at § 63.

⁷⁷ Hartmann, *supra* note 75, at 981.

⁷⁸ See *UsedSoft GmbH*, 2012 E.C.R. 407, at § 45.

⁷⁹ Hartmann, *supra* note 75, at 981.

⁸⁰ See *UsedSoft GmbH*, 2012 E.C.R. 407, at § 21.

⁸¹ *Id.*

⁸² *Id.*

⁸³ Senfleben, *supra* note 11, at 2925.

⁸⁴ See Opinion of Advocate General Bot in CJEU, Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.*, delivered on Apr. 24, 2012, at § 84.

⁸⁵ *UsedSoft GmbH*, 2012 E.C.R. 407, at § 75 et seq.

⁸⁶ *Id.* at § 80.

directly with the copyright holder, to use the computer program.⁸⁷

“That argument would have the effect of allowing the copyright holder to prevent the effective use of any used copy in respect of which his distribution right has been exhausted . . . by relying on his exclusive right of reproduction,” and would thus render the exhaustion of the distribution right ineffective.⁸⁸

“Consequently, in the event of a resale of the copy of the computer program by the first acquirer, the new acquirer will be able . . . to download . . . the copy sold to him by the first acquirer . . .” onto his computer.⁸⁹ “Such a download must be regarded as a reproduction of a computer program that is necessary to enable the new acquirer to use the program in accordance with its intended purpose.”⁹⁰ The terms in the license agreement, in particular the non-transferability of the user right, do not change this result.⁹¹

c. Exemptions

i. Ban on dividing a greater number of licenses

Volume or package licenses allow a certain number of users to use the software by buying multiple licenses.⁹² The CJEU held that the acquirer is “not authorized by the effect of exhaustion of the distribution right under Article 4(2) of the Software Directive to divide the license and resell only the user right for the software concerned corresponding to a number of users determined by him.”⁹³ This is the case since the original acquirer of the software must, “in order to avoid infringing the right holder’s exclusive right of reproduction under Article 4(1) (a) of the Software Directive, make the copy downloaded onto his computer unusable at the time of its resale.”⁹⁴ By dividing the licenses, however, the first acquirer does not make his copy unusable, but rather still uses it himself.⁹⁵

⁸⁷ *Id.* at § 82.

⁸⁸ *Id.* at § 83.

⁸⁹ *Id.* at § 81.

⁹⁰ *Id.*

⁹¹ *Id.* at § 84.

⁹² Hartmann, *supra* note 75, at 981.

⁹³ *UsedSoft GmbH*, 2012 E.C.R. 407, at § 69.

⁹⁴ *Id.* at § 78.

⁹⁵ Hartmann, *supra* note 75, at 981.

ii. Technical Protective Measures

The court also addresses the issue of product piracy.⁹⁶ A copyright holder is faced with the same problem—whether he distributes the software in a “digital” or “classic” way—that it is “only with great difficulty that he can make sure that the original acquirer has not made copies of the program, which he will continue to use after reselling the software.”⁹⁷ To solve the problem, the CJEU held that it is permissible for the distributor to make use of technical protective measures (such as product keys).⁹⁸

C. Implications of the CJEU Judgment *Oracle v. UsedSoft*

The CJEU *UsedSoft* judgment has been recognized as a “landmark decision” by many commentators.⁹⁹ The court’s judgment opens up the second-hand market for software delivered through digital distribution channels, while simultaneously imposing several restrictions on such distribution. Most notably, the court requires resellers to render their copies of the software unusable to ensure that the rights of software copyright holders do not become further exposed to violation.¹⁰⁰

The decision is outcome-oriented and driven by policy.¹⁰¹ It should be noted that the two parties of the case were in a “*good guy/good guy situation*.” The software developers—on the one side—used substantial effort, risk, and entrepreneurship to create a value. In line with John Locke’s labor theory of property¹⁰² this value creates property that needs to be protected by intellectual property rights. The software developer, seeking protection of his copyright and remuneration for the value he created, is a “good guy.” On the other side, there are limitations of the copyright. They are driven in the present case by the property rights of the acquirer of the copyrighted good and by the fundamental freedom of the free movement of goods.¹⁰³ Since the copyright owner had the chance to get remuneration for his work by the

⁹⁶ *Id.*

⁹⁷ See *UsedSoft GmbH*, 2012 E.C.R. 407, at § 79.

⁹⁸ *Id.*

⁹⁹ Kreutzer, *supra* note 5; Lee, *supra* note 1, at 847.

¹⁰⁰ See *UsedSoft GmbH*, 2012 E.C.R. 407, at § 78.

¹⁰¹ Thomas Dreier, *Online and Its Effect on the “Goods” Versus “Services” Distinction*, IIC 137, 138 (2013), available at <http://paperity.org/p/33121649/online-and-its-effect-on-the-goods-versus-services-distinction>.

¹⁰² See generally John F. Henry, *John Locke, Property Rights, and Economic Theory*, 33 J. ECON. ISSUES 609 (Sep., 1999) (discussing and analyzing John Locke’s neoclassical theory on the formation of property rights).

¹⁰³ See Dreier, *supra* note 101, at 137–38.

first sale, the acquirer should be able to freely dispose of his property. The defendant of the case (UsedSoft) simply offers a platform for the acquirers of copyrighted works to do so.¹⁰⁴ Hence, the defendant was also a “good guy.” The judgment of the CJEU is a case of “facts plus policy = results = doctrine.” It follows from the language used by the CJEU that the court wanted to enable the acquirer of a copy of the software to transfer the use rights in that particular copy to subsequent acquirers without further control by the initial right holder.¹⁰⁵ “However, this result could only be achieved on the basis of exhaustion, i.e. only on the basis of freedom of movement of goods.”¹⁰⁶ Therefore, the CJEU had to qualify the facts of the case as a “sale” . . . and broadly interpret the exception in Article 5(1) of the Software Directive.¹⁰⁷

For software developers, the judgment will “clearly be disappointing and it has surprised some in the light of the more positive opinion of Advocate General Bot.”¹⁰⁸ However, given the limited scope of the judgment itself, “it is not as disastrous as might first be thought.”¹⁰⁹

In summary, the approach taken by the CJEU strikes an appropriate balance between the interest of software copyright holders in extracting maximum financial profit by controlling the distribution of their products and the public interest in ensuring the free circulation of software products that have already been placed on the markets.¹¹⁰ In doing so, it recognizes the need for copyright law to keep pace with technological development, particularly in the relation to new distribution models.¹¹¹

Hereafter, the Note will analyze some of the policy and doctrinal aspects of the judgment in more detail.

1. Doctrine of Exhaustion as a general principle of the online sale of software

The CJEU applied the doctrine of exhaustion in the digital world of online sales of software and therefore overruled earlier opposing views of scholars and the German courts.¹¹² The court transferred a general

¹⁰⁴ *Id.* at 138.

¹⁰⁵ *Id.*

¹⁰⁶ *Id.*

¹⁰⁷ *Id.*

¹⁰⁸ Stothers, *supra* note 58, at 790.

¹⁰⁹ *Id.* See also Truijten Heydn, *EuGH: Handel mit gebrauchter Software* [CJEU: Resale of Used Software], MMR 586, 591 (2012).

¹¹⁰ Lee, *supra* note 1, at 852

¹¹¹ *Id.*

¹¹² See *supra* Part III.A.

principle of the copyright law and embedded it as a basic concept of the distribution of computer software.¹¹³ It could not be more clear-cut with the rule it established in the judgment. The acquirer can resell software that has been sold with the consent of the copyright holder—without any further authorization of the right holder—without infringing the distribution right.¹¹⁴ There is no differentiation between the online and offline sale of software.¹¹⁵ “Any notion that the exhaustion doctrine is itself facing exhaustion in Europe has now definitely been laid to rest” as far as licensed software is concerned.¹¹⁶ Hence, the CJEU ends a long legal debate and creates legal certainty in the market of the distribution of software.¹¹⁷

Following the *Football Association Premier League* decision,¹¹⁸ this is the second major judgment of the CJEU in just nine months that considers how the European single market should treat the distribution of copyrighted works in non-material form.”¹¹⁹ It seems likely that both decisions “will become fundamental decisions on the interaction between intellectual property rights and the European single market in the online world, in the same way that *Consten and Grundig*¹²⁰ and *Deutsche Grammophon*¹²¹ set the current framework in relation to physical goods in the 1960s and 1970s.”¹²²

2. Free Movement of Goods

The CJEU acts as a “guardian of a fundamental freedom in the EU,” in particular the free movement of goods, which is not a surprise.¹²³ The CJEU connects the doctrine of exhaustion with the requirement of the free movement of goods in the internal market.¹²⁴ According to

¹¹³ Hoeren & Försterling, *supra* note 43, at 644.

¹¹⁴ *UsedSoft GmbH*, 2012 E.C.R. 407, at § 89.

¹¹⁵ Hoeren & Försterling, *supra* note 43, at 644.

¹¹⁶ Longdin, *supra* note 3, at 548.

¹¹⁷ *Id.*

¹¹⁸ CJEU, Joined Cases C-403/08 & C-429/08, *Football Ass’n Premier League Ltd. v. QC Leisure*, Judgement of the Court (Grand Chamber) of Oct. 4, 2011, 2011 E.C.R. I-9162.

¹¹⁹ Stothers, *supra* note 58, at 790.

¹²⁰ CJEU, Joined Cases 56/64 & 58/64, *Établissements Consten, S.A.R.L. v. Comm’n*, Judgment of the Court (Grand Chamber) of July 13, 1966, 1966 E.C.R. 301.

¹²¹ CJEU, Case 78/70, *Deutsche Grammophon Gesellschaft mbH v. Metro-SB-Grossmärkte GmbH & Co. KG*, Judgment of the Court (Grand Chamber) of June 8, 1971, 1971 E.C.R. 489.

¹²² Stothers, *supra* note 58, at 790.

¹²³ Senftleben, *supra* note 11, at 2926.

¹²⁴ *Id.*

Advocate General Bot, “the aim of the principle of exhaustion . . . is to strike a balance between the necessary protection of intellectual property rights, which notionally confer on their holders a monopoly on exploitation, and the requirements of the free movement of goods.”¹²⁵ The CJEU states that the objective of the doctrine of exhaustion is, “in order to avoid partitioning of markets, to limit restrictions of the distribution of those works to what is necessary to safeguard the specific subject-matter of the intellectual property concerned.”¹²⁶ It follows from the aforementioned that the CJEU does not see the unplanned gap in the Software Directive as the exception.¹²⁷ Instead, the rejection of digital exhaustion in the InfoSoc Directive is the real exception from the requirement of the free movement of goods.¹²⁸ The CJEU underlines the importance of this fundamental freedom by a broad interpretation of the term “sale” and the exception in Article 5(1) of the Software Directive.¹²⁹ These broad interpretations ensure that the effectiveness of the doctrine of exhaustion is not undermined.¹³⁰

3. *Relativity of Copyright*

The most important lesson learned from the CJEU *UsedSoft* judgment is not the specific requirements for the resale of used software licenses. It is, rather, the fact that the CJEU retains the option to find boundaries for a copyright protection that the court finds too broad.¹³¹ The court held that the first sale of the copy had already enabled the right holder to obtain an appropriate remuneration.¹³² Therefore, a restriction of the resale of copies of computer programs downloaded from the internet “would go beyond what is necessary to safeguard the specific subject-matter of the intellectual property concerned”.¹³³ This is more than a statement about the remuneration of the copyright holder in the specific fact pattern.¹³⁴ The CJEU does not even specifically refer

¹²⁵ Opinion of Advocate General Bot in CJEU, Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.*, delivered on Apr. 24, 2012, 2012 E.C.R. 407, § 43.

¹²⁶ Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.*, Judgment of the Court (Grand Chamber) of July 3, 2012, E.C.R. 407, at § 62. *See also* Joined Cases C-403/08 & C-429/08, *Football Ass’n Premier League Ltd. v. QC Leisure*, Judgment of the Court (Grand Chamber) of Oct. 4, 2011, 2011 E.C.R. I-9162, at § 106.

¹²⁷ Senftleben, *supra* note 11, at 2926.

¹²⁸ *Id.*

¹²⁹ *Id.*

¹³⁰ *UsedSoft GmbH*, 2012 E.C.R. 407, at §§ 49, 83.

¹³¹ Senftleben, *supra* note 11, at 2926–27.

¹³² *UsedSoft GmbH*, 2012 E.C.R. 407, at § 63.

¹³³ *Id.*

¹³⁴ Senftleben, *supra* note 11, at 2926.

to the protection of “copyright.”¹³⁵ Rather, the court makes a statement about the boundaries of the protection of “the subject-matter of the intellectual property concerned” which results from the basic freedom of the free movement of goods in the European Union.¹³⁶ The court has argued similarly in October 2011 in its *Football Association Premiere League* judgment.¹³⁷

4. *Economic Reasoning of the CJEU*

The CJEU was led by economic considerations.¹³⁸ The court found that sales of computer programs on a CD-ROM or DVD and Internet sales of the same work were so similar in economic terms¹³⁹ that it took a wide view of what is meant by a sale and refused to limit the application of the principle of exhaustion to copies of a computer program sold on a material medium.¹⁴⁰ These economic considerations are in line with the importance of the free movement of goods that the court stretched throughout the entire reasoning of its judgment.¹⁴¹

5. *Ban on dividing greater number of licenses*

Nevertheless, the *UsedSoft* judgment is not as disastrous for software developers as they might have first thought for two reasons.¹⁴²

First, the ban on dividing a great number of licenses by reselling only “unused” licenses limits the practical applicability and usefulness of a second-hand store for used software.¹⁴³ Therefore, only companies that completely stop using the software—e.g. because they started using an alternative software or because they are insolvent—can be suppliers of the used software platform.¹⁴⁴ Additionally, the reseller has to find subsequent acquirers that want to use the same volume of licenses,

¹³⁵ See generally *UsedSoft GmbH*, 2012 E.C.R. 407.

¹³⁶ Senftleben, *supra* note 11, at 2926.

¹³⁷ Joined Cases C-403/08 & C-429/08, *Football Ass’n Premier League Ltd. v. QC Leisure*, Judgment of the Court (Grand Chamber) of Oct. 4, 2011, 2011 E.C.R. I-19162, at §§ 105–108.

¹³⁸ Longdin, *supra* note 3, at 567.

¹³⁹ *UsedSoft GmbH*, 2012 E.C.R. 407, at § 61.

¹⁴⁰ Hauke Hansen & Oliver Wolff-Rojczyk, *Erschöpfung des Verbreitungsrechts bei “gebrauchten” Softwarelizenzen* [Exhaustion of the Distribution Right for “Used” Software Licenses], GEWERBLICHER RECHTSCHUTZ UND URHEBERRECHT (GRUR) 904, 909 (2012); Longdin, *supra* note 3, at 567.

¹⁴¹ See generally *UsedSoft GmbH*, 2012 E.C.R. 407.

¹⁴² See generally *id.*

¹⁴³ See Heydn, *supra* note 109, at 591.

¹⁴⁴ See *id.*

which can be quite difficult.¹⁴⁵ The CJEU was right by establishing this ban. If license packages could lawfully be divided and resold, that would have the potential to undermine the multi-user license model, which would increase the complexity of licensing and require more careful pricing of additional licenses.¹⁴⁶

Second, most developers will be able to change their distribution model from that used by Oracle in 2005 in order to circumvent the direct impact of the judgment.¹⁴⁷

6. *Subsequent acquirers are “lawful acquirers”*

The CJEU *UsedSoft* judgment creates legal certainty for the second acquirers of software, too.¹⁴⁸ The doctrine of exhaustion cannot be applied with respect to the right of reproduction.¹⁴⁹ However, subsequent acquirers of used software are regarded as “lawful acquirers” of a copy of the computer software within the meaning of Article 5(1) of the Software Directive.¹⁵⁰ This holding is consequent since the possibility of reselling the software as a result of the exhaustion of the distribution right would render the right ineffective otherwise.¹⁵¹ Accordingly, the subsequent acquirer can download onto his computer the copy of software sold to him by the first acquirer.¹⁵²

D. Practical Consequences of the CJEU Judgment *Oracle v. UsedSoft*

This Part will describe the consequences of the *UsedSoft* judgment for the contractual practice. First, the consequences will be examined from the copyright holder’s point of view. Next, the Note will move to the acquirer’s point of view.

¹⁴⁵ See *id.*

¹⁴⁶ Stothers, *supra* note 58, at 790.

¹⁴⁷ See Part III.D.1.

¹⁴⁸ Hoeren & Försterling, *supra* note 43, at 644.

¹⁴⁹ *Id.*

¹⁵⁰ See Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.*, Judgment of the Court (Grand Chamber) of July 3, 2012, 2012 E.C.R. 407, at § 80.

¹⁵¹ *Id.* at § 83.

¹⁵² Hoeren & Försterling, *supra* note 43, at 645.

1. *From the Copyright Holder's Point of View*

a. *Contractual Exemption of the Exhaustion of the Distribution Right*

A “this is a license, not a sale” clause or a non-transferability clause cannot lead to the non-applicability of the exhaustion issue.¹⁵³ The CJEU stressed the importance of the free movement of goods in its judgment. Accordingly, the court clearly rejects any loopholes.¹⁵⁴

Additionally, the title of the contract is irrelevant.¹⁵⁵ The right holder cannot simply call the contract a “license” rather than a “sale” in order to prevent the doctrine of exhaustion from applying.¹⁵⁶ Exhaustion is a matter of copyright, not a matter of contract law.¹⁵⁷ The relevant factor is whether the right holder grants a right to use a copy of the software, for an unlimited time, in return for payment of a fee.¹⁵⁸ The CJEU therefore interprets the term “sale” in the broadest possible way and—rightly so—stops the possibility to circumvent the rule of exhaustion.¹⁵⁹

“Consequently, the acquirer of a software copy benefits from the exhaustion of the distribution right despite a possible clause in the initial license agreement prohibiting any further transfer.”¹⁶⁰

b. *License only for a limited time period*

The distribution right is not exhausted in the case of a license for a limited time period.¹⁶¹ Software producers might attempt to put themselves beyond the reach of the *UsedSoft* judgment “by shifting to a true subscription-based model, where customers are granted access to a copy of the software in question, for a limited period of time in each

¹⁵³ See Hartmann, *supra* note 75, at 985; Ralf Weisser & Claus Färber, *Weiterverkauf gebrauchter Software—UsedSoft-Rechtsprechung und ihre Folgen [Resale of Used Software—The UsedSoft Judgment and its Consequences]*, MMR 364, 366 (2014); Christian Frank & Dietrich Kamlah, *Oracle vs. Usedsoft—Practical Consequences of the CJEU Decision C-128/11 of July 3, 2012*, available at <http://deutschland.taylorwessing.com/de/news-insights/details/oracle-vs-usedsoft-2012-08-07.html> (last visited Jan. 30, 2016).

¹⁵⁴ Senftleben, *supra* note 11, at 2927.

¹⁵⁵ *Id.*

¹⁵⁶ Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.*, Judgment of the Court (Grand Chamber) of July 3, 2012, 2012 E.C.R. 407, at § 49.

¹⁵⁷ Frank & Kamlah, *supra* note 153.

¹⁵⁸ *Id.*

¹⁵⁹ Hoeren & Försterling, *supra* note 43, at 645.

¹⁶⁰ Frank & Kamlah, *supra* note 153.

¹⁶¹ Hauck, *supra* note 3, at 3618; Heydn, *supra* note 109, at 591; Weisser & Färber, *supra* note 153, at 367.

instance, upon the payment of an annual or other periodic fee.”¹⁶² Granting a right to use a copy for a limited time can be regarded as a rental of the program, rather than a sale.¹⁶³ This result can be reached by the use of the licensing and delivery model “SaaS” (Software as a Service)¹⁶⁴ or by Cloud Computing.¹⁶⁵ An advantage of these licensing models is the high flexibility.¹⁶⁶ Due to the current trend of Streaming and Cloud Computing, it also seems likely that the sale of software—whether by using a CD-ROM, DVD or download—will soon be a relic of the distant past and the question of the exhaustion of the distribution right would become obsolete.¹⁶⁷

c. Technical protective measures

Ascertaining whether the copy of the first acquirer has been made unusable and whether he does not continue to use the software after reselling it may prove difficult.¹⁶⁸ Additionally, in the case of a careless seller of used software there is a risk of reselling more licenses than originally acquired.¹⁶⁹ Therefore, the right holder needs to control or monitor the resale of the copies of its software.¹⁷⁰ For this purpose the right holder has the means of contractual notification obligations and DRM (Digital Rights Management) systems.¹⁷¹

First, there is the possibility of a contractual notification obligation.¹⁷² However, such an obligation would conflict with the policy reasons of the doctrine of exhaustion.¹⁷³ The acquirer of the right to use the software should be able to freely dispose of his property after the distribution right is exhausted.¹⁷⁴ Therefore, such contractual

¹⁶² See Lee, *supra* note 1, at 852; Stothers, *supra* note 58, at 791; Hartmann, *supra* note 75, at 985.

¹⁶³ Frank & Kamlah, *supra* note 153; Hartmann, *supra* note 75, at 985.

¹⁶⁴ SaaS is a software licensing and delivery model in which software is licensed on a subscription basis and is centrally hosted. It is sometimes referred to as “on-demand-software.”

¹⁶⁵ Cloud Computing involves deploying groups of remote servers and software networks that allow centralized data storage and online access to computer services or resources.

¹⁶⁶ Hartmann, *supra* note 75, at 985.

¹⁶⁷ Senftleben, *supra* note 11, at 2927; Kreutzer, *supra* note 5.

¹⁶⁸ Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.*, Judgment of the Court (Grand Chamber) of July 3, 2012, 2012 E.C.R. 407, at § 79; Hartmann, *supra* note 75, at 985.

¹⁶⁹ See Hartmann, *supra* note 75, at 985.

¹⁷⁰ *Id.*

¹⁷¹ *Id.*

¹⁷² *Id.*

¹⁷³ *Id.*

¹⁷⁴ *Id.*

obligations are unacceptable violations of the property right of the acquirer.¹⁷⁵ Additionally the document management might get out of hand.¹⁷⁶

Second, to prevent misuse and software piracy, right holders should consider the use of DRM systems.¹⁷⁷ These might prove a lot more effective than contractual obligations.¹⁷⁸

d. Control of the resale of software

Another possibility is continuing to use the old system of selling the software and then controlling the resale of it.¹⁷⁹ First, controlling the resale of the software can be achieved by using technical protective measures to prevent the dual use of the software by the first and subsequent acquirers.¹⁸⁰ Second, the right holder could provide its own platform to resell the software. The right holder could benefit from such a platform by receiving a sales commission.¹⁸¹

2. From an Acquirer's Point of View

From a private acquirer's point of view the sale of software for a limited time period might be sufficient and attractive in price.¹⁸² A company that acquires software will take a closer look at the practical consequences.

First, in case the company wants to purchase a certain software strategically and use it company-wide, it has an interest in an independent license position, including the possibility of reselling the software when it does not want to further use it.¹⁸³ Therefore, the company should enter into a contract that fulfills the requirements for online exhaustion, in particular, a sale for an unlimited period of time.¹⁸⁴ In this context it should be noted, that in general, in a B2B constellation the acquirer has more room to negotiate than in a B2C constellation.¹⁸⁵

Second, the ban on dividing a great number of licenses will be important for business acquirers of software.¹⁸⁶ The more fragmented

¹⁷⁵ *Id.*

¹⁷⁶ *Id.*

¹⁷⁷ Frank & Kamlah, *supra* note 153, at 9; Hauck, *supra* note 3, at 3619.

¹⁷⁸ Hartmann, *supra* note 75, at 985.

¹⁷⁹ Weisser & Färber, *supra* note 153, at 367.

¹⁸⁰ See Part IV.B.3.c.ii.

¹⁸¹ Weisser & Färber, *supra* note 153, at 367.

¹⁸² Hartmann, *supra* note 75, at 986.

¹⁸³ *Id.*

¹⁸⁴ *Id.*

¹⁸⁵ *Id.*

¹⁸⁶ *Id.*

the license packages are, the more flexibly they can be resold.¹⁸⁷ However, smaller license packages are more likely to be higher-priced.¹⁸⁸

E. Summary

The CJEU opened—in a policy-driven judgment—a secondary market for used software.¹⁸⁹ The court ruled that the doctrine of exhaustion applies equally whether software is first sold in tangible form, such as on a CD-ROM or DVD, or intangible form, e.g. via download, provided that, in the online context, the first acquirer buys his copy on a “download-to-own” basis in a way that is analogous to purchasing software on a CD-ROM in a shop.¹⁹⁰ Moreover, the second acquirer can download a new copy of the software from the copyright holder’s website in order to use the software, which will not infringe the copyright.¹⁹¹ The CJEU acts in this decision as a guardian of the fundamental freedom of the free movement of goods and strikes an appropriate balance between the copyright holder’s and acquirer’s interests. The decision is not as disastrous for the copyright holder as it might seem at first glance because the court bans the possibility of dividing greater numbers of licenses. However, the decision might still lead to practical consequences, including the increased use of DRM systems and different license and delivery models, e.g. SaaS and Cloud Computing.

In summary, the application of the doctrine of exhaustion to software downloads is now clear. What is less clear is whether the doctrine would apply to digital content other than software. This problem arises since the *UsedSoft* judgment concerns the doctrine of exhaustion in the Software Directive while the InfoSoc Directive is applicable to other digital content.

V. THE DISCUSSION AFTER *ORACLE V. USEDSoft*: CAN THE CJEU JUDGMENT BE APPLIED TO DIGITAL GOODS OTHER THAN SOFTWARE?

The greatest question of the European copyright community in the aftermath of the *UsedSoft* judgment is whether the reasoning of the CJEU can be applied to sales of other types of copyrighted works that

¹⁸⁷ *Id.*

¹⁸⁸ *Id.*

¹⁸⁹ See *id.* at 984.

¹⁹⁰ *Id.*; *UsedSoft GmbH*, 2012 E.C.R. 407, at § 61

¹⁹¹ Hartmann, *supra* note 75, at 981.

are delivered to purchasers in the digital format, such as e-books.¹⁹²

The Intellectual Property Blog “IPKat” put this question to its readers in the form of a poll.¹⁹³ The results of the poll revealed that fifty-seven percent of the respondents think that exhaustion of the distribution right as per Article 4(2) of the InfoSoc Directive encompasses both tangible and intangible copies.¹⁹⁴ Twenty-seven percent of the respondents believe that the *UsedSoft* judgment will not be extended to digital copies of works other than software.¹⁹⁵ Finally, fifteen percent of the voters feel that the answer will really depend on whether the CJEU approves of the IP owner’s conduct.¹⁹⁶

In this Part, the Note will present and critically analyze the arguments pertaining to the extension of the doctrine of exhaustion, and the application of the *UsedSoft* decision to other digital content.

A. *UsedSoft* Decision was Based on Software Directive

At first sight, an application of the CJEU *UsedSoft* judgment to other constellations does not seem obvious. The judgment concerned the interpretation of the Software Directive.¹⁹⁷ Consequently the reasoning of the CJEU related to the specific provisions of the Software Directive.¹⁹⁸ The court highlighted the special legal framework for the copyright protection of software in relation to the general copyright

¹⁹² In favor of exhaustion with respect to other digital works: Hartmann, *supra* note 75, at 984; Hoeren & Försterling, *supra* note 43, at 647; DREIER & SCHULZE, *supra* note 74, at § 69 c no. 20; Marly, *supra* note 5, at 657. Against exhaustion with respect to other digital works: Marcus von Welser, *Weiterverkauf von Gebrauchter Software ist Zulässig [Resale of Used Software is Permissible]*, GEWERBLICHER RECHTSCHUTZ UND URHEBERRECHT, PRAXIS IM IMMATERIALGÜTER-UND WETTBEWERBSRECHT (GRUR—Prax) 326 (2012); Malte Stieper, *Anmerkung zu EuGH, Urteil vom 3. Juli 2012 – C-128/11 – UsedSoft [Comment on CJEU, Judgment of July 3, 2012 – C-128/11 – UsedSoft]*, ZUM 668, 670 (2012); Stefan Krüger et al., *Keine “Used Games” aus dem Netz—Anwendbarkeit der “UsedSoft” Entscheidung auf Videospiele [No “Used Games” From the Internet—Application of the “UsedSoft” Decision to Videogames]*, MMR 760, 765 (2013).

¹⁹³ Eleonora Rosati, *UsedSoft Katpoll: Exhaustion Will Apply to Any Work (and the UK Might Achieve This Via Private Copying?)*, THE IPKAT (July 7, 2013), available at <http://ipkitten.blogspot.com/2013/07/usedsoft-katpoll-exhaustion-will-apply.html>.

¹⁹⁴ *Id.*

¹⁹⁵ *Id.*

¹⁹⁶ *Id.*

¹⁹⁷ Hartmann, *supra* note 75, at 981.

¹⁹⁸ Reto Hilty et al., *Software Agreements: Stocktaking and Outlook—Lessons from the UsedSoft v. Oracle Case from a Comparative Law Perspective*, 44 INT’L REV. INTELL. PROP. & COMPETITION L., 263, 284 (2013); Hoeren & Försterling, *supra* note 43, at 647; Hartmann, *supra* note 75, at 981.

law.¹⁹⁹ The provisions of the Software Directive “constitute a *lex specialis*” in relation to the provisions of the InfoSoc Directive.²⁰⁰ Therefore, the CJEU judgment has a direct binding effect only for software.²⁰¹

B. Parallel Exhaustion Doctrines in Software and InfoSoc Directives are similar

The provisions in the InfoSoc and the Software Directive dealing with the exhaustion of the distribution right are similar in principal: Article 4(2) of the InfoSoc Directive refers to the first sale of the “original” or “copies” of the work.²⁰² Article 4(2) of the Software Directive requires the first sale of a “copy.”²⁰³ Due to the wording of the Directives it could be argued that there is a unified legal situation.²⁰⁴

C. Uniform Interpretation of the Directives Required

It would be inconsistent if the doctrine of exhaustion would apply in the digital context with respect to software, but not with respect to other digital goods, such as e-books or digital music, since there is no reason for the unequal treatment of the different types of digital content.²⁰⁵ In particular, the economic arguments of the CJEU²⁰⁶ apply to computer programs as well as other digital content.²⁰⁷

D. New EU legislation without limitation to material copies

The InfoSoc Directive came into force in 2001.²⁰⁸ Recital 28 to the InfoSoc Directive refers expressly to the “exclusive right to control distribution of the work *incorporated in a tangible article*.”²⁰⁹ According to Recital 29 of the Directive, “the question of exhaustion does not arise in the case of services and on-line services in

¹⁹⁹ Hartmann, *supra* note 75, at 981.

²⁰⁰ Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.*, Judgment of the Court (Grand Chamber) of July 3, 2012, 2012 E.C.R. 407, at § 51.

²⁰¹ Hartmann, *supra* note 75, at 981; Hauck, *supra* note 3, at 3618; Marly, *supra* note 5, at 657; von Welser, *supra* note 192, at 326.

²⁰² InfoSoc Directive, *supra* note 15, at art. 4.

²⁰³ Software Directive, *supra* note 16, at art. 4.

²⁰⁴ Neuber, *supra* note 1, at 1275; Hartmann, *supra* note 75, at 982.

²⁰⁵ Hartmann, *supra* note 75, at 982; Kreutzer, *supra* note 5.

²⁰⁶ *UsedSoft GmbH*, 2012 E.C.R. 407, at § 61.

²⁰⁷ Hartmann, *supra* note 75, at 982.

²⁰⁸ InfoSoc Directive, *supra* note 15.

²⁰⁹ *Id.* at recital 28.

particular.”²¹⁰ In 2009, when the current version of the Software Directive came into force, the European legislature did not add such a limitation of the doctrine of exhaustion—neither in the Articles of the Directive nor in its Recitals.²¹¹ Therefore the European Union legislature expressed a different intention in the specific context of the Directive.²¹² It should be noted that it was not very common to download copyrighted works at the end of the 1990s when the InfoSoc Directive was proposed. This fact changed quite significantly by 2009. Accordingly, the timeline of the two Directives supports the argument that it is the intention of the European Union legislature not to differentiate between the online and offline sale of copyrighted works.²¹³

E. Binding effect of the Recitals to the InfoSoc Directive

A transfer of the *UsedSoft* judgment to other digital content could fail due to Recitals 28 and 29 of the InfoSoc Directive.²¹⁴ Concepts used by the body of European Directives must have the same meaning due to the requirement of unity of the European Union legal order and its coherence, unless the European Union legislature has, in a specific legislative context, expressed a different intention.²¹⁵ In principal, the doctrine of exhaustion should have the same meaning in all European Directives.²¹⁶ This would not be the case if the European Union legislature expressed a different intention.²¹⁷ Some scholars have argued that—with respect to Recitals 28 and 29 of the InfoSoc Directive—the legislature expressed such a different intention.²¹⁸

Nevertheless, the Recitals 28 and 29 are not taking today’s reality into consideration and are therefore outdated.²¹⁹ The InfoSoc Directive

²¹⁰ *Id.* at recital 29.

²¹¹ *See* Software Directive, *supra* note 16.

²¹² Hartmann, *supra* note 75, at 982.

²¹³ *Id.*

²¹⁴ *Id.*

²¹⁵ CJEU, Joined Cases C-403/08 & C-429/08, *Football Ass’n Premier League Ltd. v. QC Leisure*, Judgment of the Court (Grand Chamber) of Oct. 4, 2011, 2011 E.C.R. I-9162, at § 188; Hansen & Wolff-Rojczyk, *supra* note 140, at 909.

²¹⁶ Hansen & Wolff-Rojczyk, *supra* note 140, at 909.

²¹⁷ CJEU, Joined Cases C-403/08 & C-429/08, *Football Ass’n Premier League Ltd. v. QC Leisure*, Judgment of the Court (Grand Chamber) of Oct. 4, 2011, 2011 E.C.R. I-9162, at § 188.

²¹⁸ Hauck, *supra* note 3, at 3618; Krüger et al., *supra* note 192, at 762; Stieper, *supra* note 192, at 670.

²¹⁹ Thomas Hoeren & Sebastian Jakopp, *Der Erschöpfungsgrundsatz im digitalen Umfeld* [*The Doctrine of Exhaustion in the Digital World*], MMR 646, 649 (2014).

entered into force fourteen years ago.²²⁰ Hence, it is impossible for the Directive to take every issue of the digital realm in the year 2015 into consideration.²²¹ This is a problem that copyright law continuously has to face. The law has to be applied to a fact pattern that is not specifically legislated in the statute.²²² Thus, traditional and established doctrines should be applied.²²³ Eventually, this is also the intention of Recital 5 to the InfoSoc Directive:

Technological development has multiplied and diversified the vectors for creation, production and exploitation. While no new concepts for the protection of intellectual property are needed, 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.²²⁴

It is remarkable that the Directive states that no new concepts for the protection of intellectual property are needed.²²⁵

Furthermore, Recitals of Directives describe the intentions of the legislature for the main provisions of the Directives.²²⁶ However, they do not have a binding character and use non-mandatory language.²²⁷ If a main provision of a Directive conflicts with a Recital, the Recital does not need to be taken into account.²²⁸ Therefore, the CJEU could hold that the doctrine of exhaustion in Article 4(2) of the InfoSoc Directive is applicable to digital works and Recitals 28 and 29 are repressed.²²⁹

²²⁰ InfoSoc Directive, *supra* note 15.

²²¹ Hoeren & Jakopp, *supra* note 219, at 649; Neuber, *supra* note 1, at 1275.

²²² Hoeren & Jakopp, *supra* note 219, at 649.

²²³ *Id.*

²²⁴ InfoSoc Directive, *supra* note 15.

²²⁵ *Id.*

²²⁶ Hartmann, *supra* note 75, at 982.

²²⁷ *Joint Practical Guide of the European Parliament, the Council and the Commission for Persons Involved in the Drafting of Legislation within the Community Institutions*, at § 10.1 (Mar. 16, 2000), available at http://legislationline.org/download/action/download/id/2245/file/EU_Practical_Guide_Persons_involved_Drafting_legislation_200.pdf.

²²⁸ Hartmann, *supra* note 75, at 982.

²²⁹ *Id.*

F. WCT is no legal reason against the extension of the Exhaustion Doctrine

Some commentators have argued that the WCT is a legal reason against the extension of the exhaustion principle to intangible objects other than software.²³⁰ The “[a]greed statements concerning Article 6 and 7” of the WCT state that the expressions “copies” and “original and copies” being subject to the right of distribution refer exclusively to fixed copies that can be put into circulation as tangible objects.²³¹ Accordingly, only the sale of tangible goods can lead to the exhaustion of the distribution right according to Article 6(2) of the WCT.²³² Since the InfoSoc Directive serves to implement the obligations under the WCT (Recital 15 of the InfoSoc Directive), it has been argued that it must differentiate between the distribution of a good in the tangible and intangible form.²³³

However, it should be noted that the WCT was signed on December 20, 1996.²³⁴ It was passed at a time when the legislature could not have foreseen the online services we have today.²³⁵

G. Similar situations with respect to online and offline distribution

Finally, the CJEU has introduced a new rule that goes beyond the wording of the relevant provisions of the Software Directive, as these provisions do not sufficiently cover the current state of the art in data transmission and internet technologies.²³⁶ The involved parties’ interests need to be taken into consideration in the context of the economic circumstances in the individual case.²³⁷ Such economic considerations as well as other policy arguments that the CJEU made in the *UsedSoft* judgment are also relevant for works other than software.²³⁸

The principle of equal treatment requires that there be *no differentiation between software and other digital content* (e.g. e-books

²³⁰ See Hansen & Wolff-Rojczyk, *supra* note 140, at 909; Heydn, *supra* note 109, at 591; Krüger et al., *supra* note 192, at 764; Stieper, *supra* note 192, at 668.

²³¹ World Intellectual Property Organization, World Copyright Treaty, Dec. 20, 1996, 36 ILM 65

²³² See Heydn, *supra* note 109, at 591.

²³³ See *id.*

²³⁴ World Intellectual Property Organization, World Copyright Treaty, Dec. 20, 1996, 36 ILM 65

²³⁵ See Schulze, *supra* note 28, at 13.

²³⁶ Hilty et al., *supra* note 198, at 284.

²³⁷ *Id.*

²³⁸ *Id.*

or music files).²³⁹ The court held 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.²⁴⁰ Additionally the online transmission method is the functional equivalent of the supply of a material medium.²⁴¹

“To limit the application of the principle of the exhaustion of the distribution right solely to copies of computer programs that are sold on a material medium would allow the copyright holder to control the resale of copies downloaded from the internet and to demand further remuneration on the occasion of each new sale, even though the first sale of the copy had already enabled the right holder to obtain an appropriate remuneration.”²⁴²

“Such a restriction of the resale of copies of computer programs downloaded from the internet would go beyond what is necessary to safeguard the specific subject-matter of the intellectual property concerned.”²⁴³ Furthermore, the objective of the principle of exhaustion is to “avoid partitioning of markets.”²⁴⁴ All these policy arguments that the CJEU stated in its *UsedSoft* judgment also apply to the situation of the sale of digital content other than software.²⁴⁵

Additionally, there are no different interests at stake in the scenarios of online and offline distribution of copyrighted works; in other words buying a print book or a CD is essentially the same as acquiring perpetual access to an e-book, film, music, game file and should therefore be treated alike.²⁴⁶

Nonetheless, it has been questioned whether there are major

²³⁹ Zhaoli Wang, Pei Zhang, & Hanwei Wang, *Following the “UsedSoft” Judgment: Should the “Principle of Equal Treatment” Also Be Applied to Online Markets Other Than Computer Programs?*, BLOG INTELL. PROP. & KNOWLEDGE MGMT (May 23, 2014), available at <https://law.maastrichtuniversity.nl/ipkm/following-the-usedsoftjudgment-should-the-principle-of-equal-treatment-also-be-applied-to-online-markets-other-than-computer-programs/>.

²⁴⁰ Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.*, Judgment of the Court (Grand Chamber) of July 3, 2012, 2012 E.C.R. 407, at § 61.

²⁴¹ *Id.*

²⁴² *Id.* at § 63.

²⁴³ *Id.*

²⁴⁴ *Id.* at § 62.

²⁴⁵ Hartmann, *supra* note 75, at 984.

²⁴⁶ *Id.*; DREIER & SCHULZE, *supra* note 74, at § 69 c no. 24; Hoeren & Försterling, *supra* note 43, at 647; Marly, *supra* note 5, at 657; Schulze, *supra* note 28, at 13.

differences between selling a work in tangible form and in intangible form with respect to the risk of product piracy.²⁴⁷ Some commentators demanded a more in-depth analysis of the special technical and economic features of the different ways of distribution by the CJEU.²⁴⁸ Others have argued that resales have an immediate and potentially detrimental effect on sales of “originals” because there is no difference in digital quality and the consumer reseller is free to price the content far below the price of the “original,” so that this competition could seriously undermine the sales of originals.²⁴⁹

However, I do not think that the risk of product piracy is higher in the online scenario compared to the offline situation. Stickers noting that the owner has a license to use the program might mark original CDs or DVDs.²⁵⁰ But in the situation of a download of digital content, DRMs or digital watermarks might be used.²⁵¹ Therefore, there are similar possibilities of protection against product piracy.

Additionally, the question whether a second-hand market for digital content is necessary is not a question that needs a solution by lawyers, but by economists.²⁵² Furthermore, this is not a question that should be answered by courts. It is, rather, so fundamental that the European legislature should find a solution for it and clarify it in new legislation.

H. Conclusion

In conclusion, the arguments in favor of allowing an extension of the exhaustion principle to intangible objects outweigh the arguments against it.

Two different Directives apply for software and other digital content: the Software Directive and the InfoSoc Directive.²⁵³ Since the Software Directive constitutes a *lex specialis* in relation to the provisions of the InfoSoc Directive, the *UsedSoft* judgment has a direct binding effect only for Software.²⁵⁴ However, it should be noted that the current version of the Software Directive came into force eight years after the InfoSoc Directive. In the Software Directive, the European legislature did not add a limitation of the doctrine of exhaustion to tangible goods.²⁵⁵ Additionally, it was a lot more common to download

²⁴⁷ Stieper, *supra* note 192, at 669.

²⁴⁸ *Id.*

²⁴⁹ Schulze, *supra* note 28, at 13.

²⁵⁰ Marly, *supra* note 5, at 657.

²⁵¹ *Id.*

²⁵² Hauck, *supra* note 3, at 3618.

²⁵³ Hartmann, *supra* note 75, at 982.

²⁵⁴ *Id.* at 981; Hauck, *supra* note 3, at 3618; Marly, *supra* note 5, at 657; von Welser, *supra* note 192, at 326.

²⁵⁵ Kreutzer, *supra* note 5.

copyrighted goods when the current version of the Software Directive entered into force compared to the time when the InfoSoc Directive was proposed. This argument does not change because of Recitals 28 and 29 to the InfoSoc Directive. Since Recitals 28 and 29 are outdated, an application of the doctrine of exhaustion to other digital content cannot be denied. Most importantly the doctrine of equal treatment requires that there be no differentiation between software and other digital content. In both cases, the first sale of the protected work enabled the copyright holder to obtain an appropriate remuneration. It follows from the aforementioned that the doctrine of exhaustion applies to digital content other than software, too. The European legislator should add a clarification in this respect to both Directives.

VI. THE RESALE OF DIGITAL GOODS OTHER THAN SOFTWARE

A. The Judgment of the Court of Appeals in Hamm, Germany (Az. U 60/13)

1. *Facts*

The Court of Appeals in Hamm, Germany is the first higher court that dealt with the resale of digital goods other than software after the CJEU *UsedSoft* decision.²⁵⁶ The German Federation of Consumer Organizations sued a web platform that sold e-books and audiobooks on CDs/DVDs and by download.²⁵⁷ The defendant used the following terms and conditions:

Within the scope of this offer the customer acquired the non-exclusive and non-transferrable right to use the file on offer merely for private use according to the copyright code and in the way they are offered in each case. It is not allowed to . . . copy them for third parties . . . [or] to resell them.²⁵⁸

The plaintiff claimed that the platform's terms and conditions violated the German law on terms and conditions since the user had the right to resell the e-book/audiobook under copyright law.²⁵⁹

²⁵⁶ Alberto Bellan, *Breaking—Copyright Exhaustion Does Not Apply to Digital Goods Other Than Software, Hamm Court of Appeal Says*, THE IPKAT, (June 13, 2014), available at <http://www.ipkitten.blogspot.com/2014/06/breaking-copyright-exhaustion-does-not.html>.

²⁵⁷ Oberlandesgericht [Court of Appeals] Hamm, Germany, 15 May, 2014, 22 U 60/13, GRUR 853 (2014).

²⁵⁸ *Id.* at 854.

²⁵⁹ *Id.*

The Regional Court in Bielefeld, Germany, ruled in favor of the defendant and took the view that the *UsedSoft* decision only concerned computer programs and the Software Directive, while the InfoSoc Directive—which is the one applicable to e-books and audio books—clearly and consciously excludes exhaustion for all other digital contents.²⁶⁰

The German Federation of Consumer Organizations appealed the judgment.²⁶¹

2. *The Judgment of the Court of Appeals in Hamm, Germany*

The Court of Appeals in Hamm, Germany, upheld the Regional Court decision on May 15, 2014.²⁶²

The court denied the applicability of the principles expressed in the *UsedSoft* judgment (whether direct or by analogy), confirming that the Software Directive is *lex specialis* and therefore not applicable to subject-matter other than software.²⁶³

The court held that the sale of audio files over the internet in a way that allows customers to have the opportunity to download and save corresponding files locally on their own data carriers is not covered by the right of distribution (§ 17 of the German Copyright Act, which implements Article 4 of the InfoSoc Directive).²⁶⁴ It should be considered as an act of making available to the public, which is not subject to exhaustion (§ 19a of the German Copyright Act, which implements Article 3 of the InfoSoc Directive).²⁶⁵ Accordingly, the exhaustion of the distribution right within the meaning of § 17(2) of the German Copyright Act (which implements Article 4(2) of the InfoSoc Directive) is not caused if customers are given the opportunity to download and save corresponding files locally on their own data carriers and do so.²⁶⁶ Section 17(2) of the German Copyright Act cannot be applied by analogy.²⁶⁷

In light of that, providers of digital audio files can validly include clauses in terms and conditions that prohibit customers from reselling

²⁶⁰ Landgericht [Regional Court] Bielefeld, Germany, 5 March, 2013, 4 O 191/11, ZUM 2013, 688.

²⁶¹ Oberlandesgericht [Court of Appeals] Hamm, Germany, 15 May, 2014, 22 U 60/13, GRUR 853, 855 (2014).

²⁶² *Id.*

²⁶³ *Id.* at 855.

²⁶⁴ *Id.*

²⁶⁵ *Id.*

²⁶⁶ *Id.*

²⁶⁷ *Id.* at 858.

audiobooks.²⁶⁸

B. Analysis of the Judgment of the Court of Appeals in Hamm, Germany

While the CJEU opened the door for a second-hand market for software, the Court of Appeals in Hamm, Germany closed this door again for digital content other than software.²⁶⁹ Nevertheless, this decision will mean some relief for digital content providers.²⁷⁰

The judgment creates an economically paradox result. Let us return to the three scenarios established in the introduction of this Note.²⁷¹ A consumer walks into a bookstore and buys the physical copy of a book. According to current case law, this would be a case of exhaustion of the distribution right (Article 4(2) of the InfoSoc Directive)²⁷² and the consumer can resell the book. The same consumer buys the same work as an e-book and downloads the e-book from the website of an online store. The doctrine of exhaustion does not apply according to the Court of Appeals in Hamm, Germany, and the consumer cannot resell the e-book.²⁷³ The consumer buys software from the same online store and downloads the software from the website. Here, the doctrine of exhaustion applies (Article 4(2) of the Software Directive),²⁷⁴ and the consumer can resell the software he purchased in the online store.

The decisions of the CJEU and the Court of Appeals in Hamm show that there currently is a situation in Europe in which the ability of a digital good to be resold depends on what kind of good it is.²⁷⁵ Software can be resold; e-books and digital music cannot be resold. Hence, the current state of the doctrine of exhaustion in the digital world is not satisfactory. The denial of transferring the *UsedSoft* judgment to other digital content results in an unequal treatment of e-books and software.²⁷⁶ Rather than establishing a clear, unified doctrine for the

²⁶⁸ *Id.* at 861.

²⁶⁹ *Id.*

²⁷⁰ See generally Ganea, *supra* note 34, at 104 (explaining the negative effects on digital content providers when digital content can be resold).

²⁷¹ See *supra* Part I.

²⁷² InfoSoc Directive, *supra* note 15, at art. 4; Hoeren & Jakopp, *supra* note 219, at 647.

²⁷³ Hoeren & Jakopp, *supra* note 219, at 647.

²⁷⁴ Software Directive, *supra* note 16, at art. 4. See also Case C-128/11, *UsedSoft GmbH v. Oracle Int'l Corp.*, Judgment of the Court (Grand Chamber) of July 3, 2012, 2012 E.C.R. 407.

²⁷⁵ Hauck, *supra* note 3, at 3616.

²⁷⁶ Ronny Hauck, *Keine Anwendung des Erschöpfungsgrundsatzes beim Download von Hörbüchern* [No Application of the Exhaustion Doctrine for the Download of E-books], GRUR-Prax 309, 309 (2014).

resale of digital content, the Court of Appeals in Hamm, Germany, further underlines the special status of software in European copyright law.²⁷⁷ In addition, the rule that was established by the Court of Appeals in Hamm, Germany, creates a serious barrier to the single market, in particular to the digital single market.²⁷⁸ Unfortunately, appeal to the German Federal Court of Justice was not granted.²⁷⁹ This court—and the CJEU—could have finally ended this decade-long legal debate.

The unequal treatment of software and other digital content should be solved *de lege ferenda* by establishing an extensive doctrine of online exhaustion. This doctrine should not differentiate between the distribution of a copyrighted work in a tangible or intangible form.²⁸⁰ This would require giving up the distinction between the tangible distribution and intangible making available to the public of digital works and taking a step back from the current understanding of the traditional doctrine of exhaustion.²⁸¹

Furthermore, instead of having a differentiation based on the type of digital content (software or e-books), it could also be based on whether there is a B2C or B2B situation.²⁸² This could open the door for policy reasons of the European Consumer Protection Law.²⁸³

VII. A QUICK GLANCE ACROSS THE ATLANTIC: *CAPITOL RECORDS, LLC V. REDIGI INC.*

In 2013, the first U.S. case dealing with the resale of digital content was decided.²⁸⁴ In *Capitol Records, LLC v. ReDigi Inc.*,²⁸⁵ ReDigi was a service that allowed the resale of digital music tracks originally purchased from the iTunes Store.²⁸⁶ ReDigi made some limited efforts to make sold songs unusable, but those efforts did not lead to automatic deletions and could not ensure the song was deleted from all places where the user may have stored it.²⁸⁷

The case raises the novel question whether a digital music file, lawfully made and purchased, is eligible for resale under the first-sale

²⁷⁷ Hauck, *supra* note 3, at 3618.

²⁷⁸ Hoeren & Jakopp, *supra* note 219, at 647.

²⁷⁹ See Oberlandesgericht [Court of Appeals] Hamm, Germany, 15 May, 2014, 22 U 60/13, GRUR 853 (2014).

²⁸⁰ Hauck, *supra* note 276, at 309.

²⁸¹ *Id.*

²⁸² Hauck, *supra* note 3, at 3618.

²⁸³ *Id.*

²⁸⁴ See *Capitol Records, LLC v. ReDigi Inc.*, 934 F. Supp. 2d 640 (S.D.N.Y. 2013).

²⁸⁵ *Id.*

²⁸⁶ *Id.* at 645.

²⁸⁷ *Id.*

doctrine.²⁸⁸ In its current form under 17 U.S.C. § 109(a), the first-sale doctrine allows the owner of a particular copy of a copyrighted work “lawfully made under this title,” or an individual authorized by such owner, to sell or dispose of his copy without the copyright owner’s authorization.²⁸⁹ On March 30, 2013, the United States District Court for the Southern District of New York ruled in favor of Capitol Records.²⁹⁰ It held that an unauthorized transfer of a digital music file over the internet, even if only one file exists before and after the transfer, was an act of reproduction, and therefore required the right holder’s permission.²⁹¹ The fact that a file had moved from one material object (the user’s computer) to another material object (ReDigi’s server) was sufficient for there to be an act of reproduction, even if there was only one file before and after the transfer.²⁹² The court held that the first-sale defense did not apply to ReDigi because first-sale only affects the copyright holder’s distribution right, not reproduction right.²⁹³

VIII. CONCLUSION

This Note demonstrated that the doctrine of exhaustion should apply to software as well as other digital content in order to open the door for a secondary market for used digital content. While the CJEU already opened the door for a second-hand market for software, the Court of Appeals in Hamm, Germany, recently closed the door for a second-hand market for other digital content. However, this Note posits that the arguments in favor of applying the doctrine of exhaustion to digital content other than software outweigh the arguments against it. The European legislature should add a clarification in this respect to the Software and InfoSoc Directive.

²⁸⁸ *Id.* at 648.

²⁸⁹ *Id.*

²⁹⁰ *Id.* at 640.

²⁹¹ *Id.* at 650.

²⁹² *Id.*

²⁹³ *Id.* at 655.

