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SECOND-HAND MARKETS FOR DIGITAL COPIES IN EUROPE: AN ILLUSION?

Eleonora Rosati

Copyright in the Digital Age: US and UK Perspectives
London, 15 June 2017



What are we
speaking about?

Look inside ↴

Emmanuel
Macron

Révolution

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combat
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






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Can you resell digital copies of copyright works?
If so, is this true for any type of work?

Contents

- The right of distribution within the EU copyright architecture
 - [Software Directive](#) (Directive 2009/24)
 - [InfoSoc Directive](#) (Directive 2001/29)
- The principle of exhaustion and its rationale
- Is there such thing as ‘digital exhaustion’?
 - The case of computer programs: [UsedSoft, C-128/11](#); [Microsoft, C-166/15](#)
 - The (non-)case of other copyright works: [Allposters, C-419/13](#); [VOB, C-174/15](#)
- The policy debate
- Post-Brexit UK

The right of distribution within the EU copyright architecture

Right of distribution: Article 4(1)(c) Software Directive

“ ... [T]he exclusive rights of the rightholder ... shall include the right to do or authorise ... any form of distribution to the public, including the rental, of the original computer program or of copies thereof.”

Right of distribution: Article 4(1) InfoSoc Directive

“Member States shall provide for authors, in respect of the original of their works or of copies thereof, the exclusive right to authorise or prohibit any form of distribution to the public by sale or otherwise.”

The principle of exhaustion and its rationale

- Derived from German and US laws
- Rationale: strike balance between IP protection and free movement
- Treaty of Rome and the idea of a common market
 - Free movement of goods and services as primary means to achieve economic integration
- [Metro, C-78/70](#)
 - Creation of an internal area without frontiers
 - Existence / exercise of IPRs: balance between IP protection and free movement of goods
- Reference in a number of directives, including Software and InfoSoc Directives

Exhaustion: Article 4(2) Software Directive

“The first sale in the Community of a copy of a program by the rightholder or with his consent shall exhaust the distribution right within the Community of that copy, with the exception of the right to control further rental of the program or a copy thereof.”

Exhaustion: Article 4(2) InfoSoc Directive

“The distribution right shall not be exhausted within the Community in respect of the original or copies of the work, except where the first sale or other transfer of ownership in the Community of that object is made by the rightholder or with his consent.”

But:

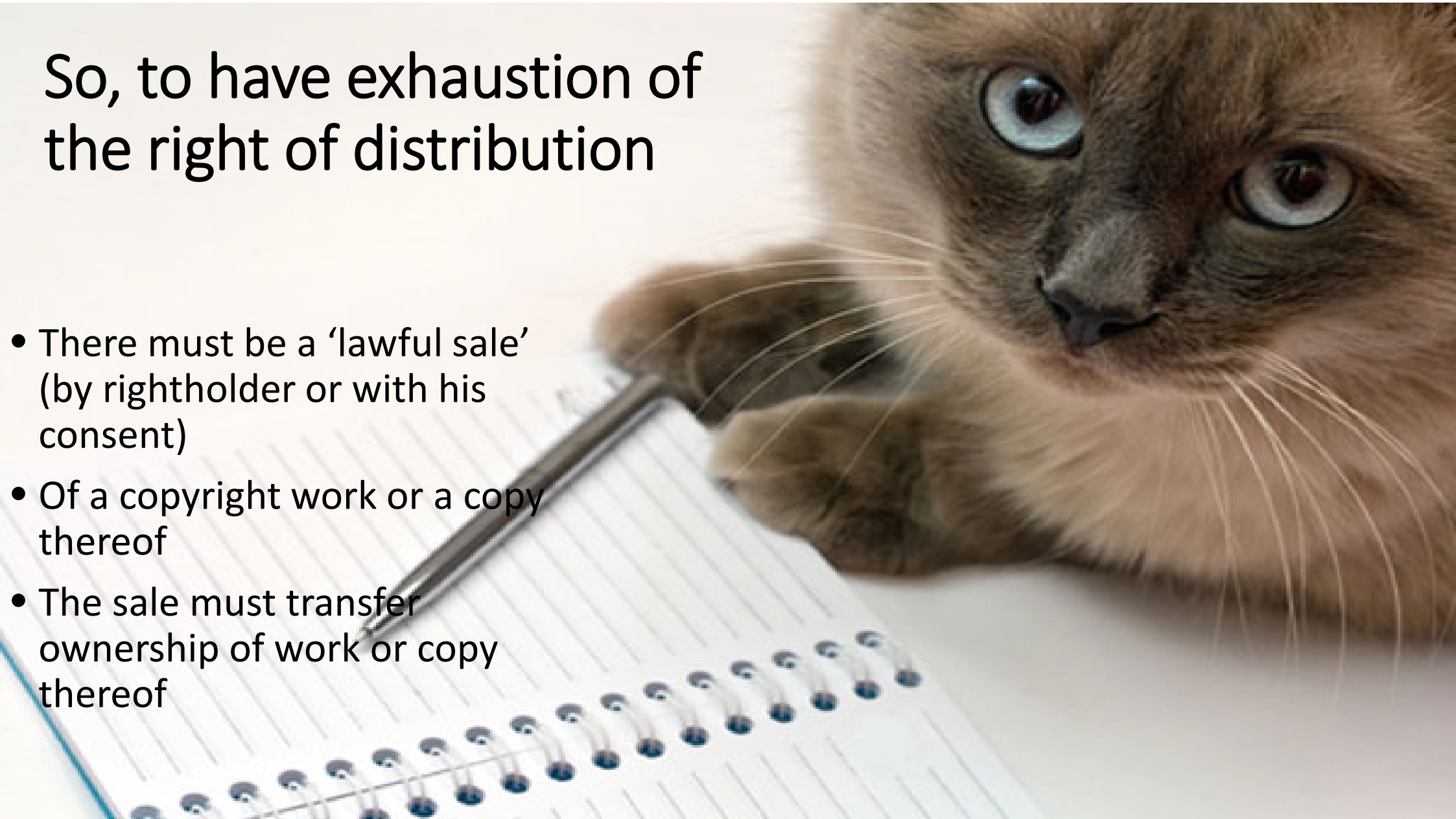
Recital 28: “Copyright protection under this Directive includes the exclusive right to control distribution of the work incorporated in a tangible article. The first sale in the Community of the original of a work or copies thereof by the rightholder or with his consent exhausts the right to control resale of that object in the Community”

Recital 29: “The question of exhaustion does not arise in the case of services and on-line services in particular”

Article 3(3): “The rights of communication and making available to the public shall not be exhausted”

So, to have exhaustion of the right of distribution

- There must be a 'lawful sale' (by rightholder or with his consent)
- Of a copyright work or a copy thereof
- The sale must transfer ownership of work or copy thereof



But is there
such thing as
digital exhaustion?



The case of computer programs: the *UsedSoft* decision

usedSoft®



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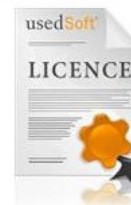
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UsedSoft (2012): background

- Oracle SW available for download from website
 - Download + user licence
 - 1 licence x 25 users
 - “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”
- UsedSoft markets used SW licences
 - Licences acquired from Oracle customers
 - UsedSoft customers not yet in possession of Oracle SW, first acquire licence and then download SW
 - If additional licences, SW copied in users’ workstations

CJEU response

Article 4(2) of the Software Directive is to be interpreted in the sense that the right of distribution over the copy of a computer program is exhausted following the grant of a licence if this can be considered tantamount to a sale, despite the different contractual qualification given by the parties.

(Confirmed in *Microsoft* – does not extend to back-up copies)



What is a “sale”?

- Notion
 - Autonomous concept of EU law (no reference to MSs in Software Directive)
 - Broad
- 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
- Download + Oracle licence are inseparable from the point of view of acquirer, as they are aimed at obtaining the right to use the copy for an unlimited time, following payment of a price which is tantamount to its economic value
- Download of Oracle SW is a sale despite different *nomen juris*

The (non-)case of other copyright works

➤ NB: here the question falls under the InfoSoc Directive

Is CJEU likely to extend *UsedSoft* to subject-matter other than computer programs?

- CJEU in [Nintendo](#) (2014): “Directive 2009/24 constitutes a *lex specialis* in relation to Directive 2001/29 ... [T]he protection offered by Directive 2009/24 is limited to computer programs.”
- Commission in leaked [White Paper](#) (2014): premature to address digital exhaustion
 - Uncertainties also in the [US](#) as regards best reform options
 - Speaking of the US: [first sale doctrine](#) and [ReDigi](#) case (2013) – no digital exhaustion
- [Court of Appeal of Hamm](#) (2014): no digital exhaustion under InfoSoc Directive (2014 case concerning audiobooks)
- [District Court of Amsterdam](#) (2014): *UsedSoft* principles applicable to second-hand ebooks

Allposters (2015)

- Unauthorised making and selling of altered versions of works (transfer of posters on canvas)
- Could this reproduction be considered OK because of exhaustion of the right of distribution?
- Recital 28
“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 rightholder or with his consent exhausts the right to control resale of that object in the Community”
- Recital 29
“The question of exhaustion does not arise in the case of services and on-line services in particular”
- Agreed statements [Article 6 WCT](#): only tangible copies

CJEU response

- [AG Cruz Villalón](#): right of distribution can be only exhausted in relation to tangible support (*corpus mechanicum*) of a work
- “[T]he EU legislature, by using the terms ‘tangible article’ and ‘that object’, wished to give authors control over the initial marketing in the European Union of each tangible object incorporating their intellectual creation ... [I]t should be found that exhaustion of the distribution right applies to the tangible object into which a protected work or its copy is incorporated if it has been placed onto the market with the copyright holder’s consent.”

VOB (2016)

- [AG Szpunar](#): *Allposters* did not go there
- But cf CJEU
 - “The Court has already held that forms of exploitation of a protected work, such as public lending, are different in nature from a sale or any other lawful form of distribution, since the lending right remains one of the prerogatives of the author notwithstanding the sale of the physical medium containing the work. Consequently, the lending right is not exhausted by the sale or any other act of distribution, whereas the distribution right may be exhausted, but only and specifically upon the first sale in the European Union by the rightholder or with his consent”

The policy debate



Post-Brexit UK

A still from the 1964 film "Mary Poppins" showing the titular character, Mary Poppins, played by Julie Andrews. She is standing in a room with patterned wallpaper and green curtains, holding her signature black umbrella. She is wearing a dark blue coat over a white blouse with a red bow. The text "As I expected. 'Mary Poppins. Practically perfect in every way.'" is overlaid on the bottom half of the image in a yellow, outlined font.

As I expected. "Mary Poppins.
Practically perfect in every way."



Something to think about ... in conclusion

- Are all copies created the same?
 - Degradation
- Avoiding exhaustion
- Does exhaustion matter?
 - From 'ownership' to access
 - IFPI Global Music Report 2017

At the end of 2016 there were 112 million users of paid music streaming subscriptions driving year-on-year streaming revenue growth of 60.4%. Digital income last year accounted for half the global recorded music industry's annual revenue for the first time. Growth in streaming more than offset a 20.5% decline in downloads and a 7.6% decline in physical revenue.

Streaming is helping drive growth in developing music markets, with China (+20.3%), India (+26.2%) and Mexico (+23.6%) seeing strong revenue growth.



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Thanks for your attention!

AIPLA

The First Sale Doctrine and Digital Content: A U.S. Perspective

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AIPLA

Serving the

Creative and **Legal** Communities

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U.S. Copyright Act

- Section 106 of the United States Copyright Act grants the owner of a copyright certain exclusive rights, including:
 - the right to reproduce the work in copies;
 - The right to prepare derivative works;
 - The right to distribute copies to the public by sale, rental, lease or lending;

Limitations on Exclusive Rights

- There are certain limitations on the exclusive rights granted to owners:
 - First Sale Doctrine
 - Essential Step Defense (Software Only)
 - Fair Use

First Sale Doctrine

- Articulated by the Supreme Court in (***Bobbs-Merrill Co. v. Straus***, 210 U.S. 339 (1908)).
- Held: A copyright owner's right to multiply and sell a work did not create a right to limit resale.
- Codified by Congress in 1909 under Section 109 of the Copyright Act.

First Sale Doctrine

- Section 109(a) states: “Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”

N.B. Section 109(b) does limit this right in the context of sound recordings or computer programs by rental, lease or lending, unless by a non-profit library or educational institution.

First Sale Doctrine (Physical copies)

- ***Kirtsaeng v. John Wiley & Sons, Inc.***, 568 U.S. 519, 133 S. Ct. 1351 (2013)
- An individual legally purchased textbooks in Thailand made for that market (lower purchase price, printed on cheaper paper) and resold them in the United States.



Physical Books/Compact Discs

- U.S. Supreme Court held that specific copies of a book, whether they are manufactured and sold first in the U.S. or overseas, are subject to the First Sale Doctrine.
- Owner of the copy is free to dispose of *that* copy after the first sale exhausts the copyright owner's distribution right.
- The Physical Used Book and Used Record/CD markets will continue to thrive.

Digital Copies

- Do you own your iTunes music library?
- Not so, at least according to the latest U.S. case law. Software, digital music files, and e-books are viewed differently than physical books or records/CDs by the Federal Courts.



Software

- ***Vernor v. Autodesk, Inc.***, 621 F. 3d 1102 (9th Cir. 2010).
 - Individual purchased at private “garage sale” physical copies of CAD software with authorization codes written on them, then resold on eBay. Never uploaded software onto any computer.
 - Claimed he could resell the software under the First Sale Doctrine and/or Essential Step Defense (allows copying of software if the copy is essential in utilization of the software (RAM copy)).

Software

- 9th Circuit Court of Appeals held Vernor never was an owner of the Software.
- Software was originally purchased under license.
- Licensee not granted ability to sell software copy.
- Held: First Sale Doctrine does not apply.
- Similarly, since only the “owner” of a copy of software can claim the essential step defense, this defense was unavailable.

Digital Music Files



- ***Capitol Records, LLC v. ReDigi, Inc.***, 934 F. Supp. 2d 640, 651 (S.D.N.Y. 2013), *on appeal*, Case No. 16-2321 (2d Cir. 2017)
 - ReDigi online platform allowed user to resell unwanted digital music files.
 - Required user to download a “media manager” facilitating access to user’s iTunes (or other) music library; user could then resell music file(s) in “virtual” store, resulting in deletion of music file from user music library “in theory.”

Digital Music Files

- Capitol Records sued for infringement; ReDigi claimed First Sale Doctrine and Fair Use defenses, but neither was accepted by District Court on summary judgment.
- “The novel question presented in this action is whether a digital music file, lawfully made and purchased, may be resold by its owner through ReDigi under the first sale doctrine.”

Digital Music Files

- The District Court held that ReDigi could not rely on the First Sale Doctrine.
- The “seller” was not offering the actual music file “copy” originally purchased.
- Instead, seller’s use of the Redigi “media manager” created a new “copy” upon transfer of the digital file to “buyer.”
- Held: The copy transferred was not lawfully made under the Copyright Act and violated the copyright owner’s reproduction rights.

Digital Music Files

- ReDigi has appealed.
- Association of American Publishers' amicus brief supports district court reasoning, since this same model could be used for the resale of e-books.
- Motion for expedited argument granted.
- Oral Arguments scheduled for *July* 2017.

Digital Works Law Settled?

- Not yet
- Amazon and Apple have each filed patent applications for marketplaces for digital files.
- The ReDigi case has left open a “loophole” for “ReDigi 2.0”: a user may initially upload the digital music file to ReDigi and that specific “copy” is sold by “turning off” seller’s access and “switching on” access for “buyer,” without any reproduction or copy made in that process.

Protectability - Feature of Useful Article

- ***Star Athletica, LLC v. Varsity Brands, Inc.***, 580 U.S. ___, No. 15-866 (Mar. 22, 2017)
- “A feature incorporated into the design of a useful article is eligible for copyright protection only if the feature (1) can be perceived as a two- or three-dimensional work of art separate from the useful article, and (2) would qualify as a protectable pictorial, graphic, or sculptural work—either on its own or fixed in some tangible medium of expression—if it were imagined separately from the useful article”

Star Athletica – Case History

- Summary judgment originally granted in favor of Star Athletica; copyrights in cheerleading uniform chevron patterns found invalid; designs could not be “separated” from the useful article to which designs were applied.
- 6th Circuit Court of Appeals reversed the district court decision, acknowledging U.S. courts have not used a clear, consistent “separability” test.
- Split among circuit courts til now; as many as 9 tests recognized for “separability”.

Star Athletica - Interpretation

- Hybrid test for separability
- Applicability not limited to apparel
- Broader impact to non-functional aspects of product and packaging designs
- Justice Ginsburg's concurrence distinguished chevron designs at issue as copyrightable standing alone, separability analysis unnecessary
- Protectability of chevron designs undecided, remanded to district court for consideration.

AIPLA - Thank you for your attention!



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