

# The Legality of Resale of Digital Content after *UsedSoft* in Subsequent German and CJEU Case Law<sup>1</sup>

Maša Savič\*

☞ Audio recordings; Computer games; E-books; EU law; Exhaustion of rights; Germany; Resale right; Software

*When the UsedSoft judgment was rendered by the Court of Justice of the European Union the reaction of the public, professional and lay, was tremendous. However, soon enough the future impact of the judgment was being described as either a meteor or (more likely) a single one-shot comet. More than two years after the UsedSoft judgment, with a growing amount of case law on the matter, the aim of this article is to thoroughly examine post-UsedSoft case law regarding digital exhaustion, particularly in relation to digital content other than software, in Germany and before the CJEU.*

## Introduction

When the *UsedSoft* judgment was rendered by the Court of Justice of the European Union (CJEU) on July 3, 2012, the reaction of the public, professional and lay, was tremendous. The judgment established the status of lawful acquisition (*digital ownership*) of *used* downloaded software granted with the right of use without any time-limit in the EU, applying the copyright principle of exhaustion to digital software and spurring the imagination of many about its possible applicability to and relevance for other types of digital content such as music files, videos and e-books. However, soon enough the future actual impact of the judgment was being described as either a meteor or (more likely) a single one-shot comet.<sup>2</sup> The academic output lasted quite some time, with legal analyses of the judgment by important scholars still being written in 2014.<sup>3</sup> Most of these analyses, however, dealt with the question whether exhaustion *should* apply to digital software or other types of digital content, offering numerous valid arguments for as well as against, and sticking to mere speculations on

the impact of *UsedSoft* in practice. Not many or none at all examined the growing amount of case law in the EU after *UsedSoft*. That is why the aim of this article is to thoroughly examine post-*UsedSoft* case law regarding digital exhaustion, particularly in relation to digital content other than software, in Germany and before the CJEU, and to offer a brief inspection of the argumentation given by the courts. The issue of resale of used downloaded software has already had a more than 10-year history of lively discussion in Germany and has been considered in court a number of times. Since Germany constitutes a large trading market in Europe and beyond, with a number of “used software” providers such as UsedSoft and Susensoftware, a large amount of case law originates there.<sup>4</sup> Furthermore, there was case law in Germany in regard to video games, audio books and e-books before and after the *UsedSoft* judgment, which can give a good idea of the impact of *UsedSoft* in practice up to now, at least in Germany. In this article subsequent German and also CJEU case law concerning software and, moreover, other types of digital goods will be examined. Its aim will be to determine whether it follows from post-*UsedSoft* German and CJEU case law that the exhaustion principle applies to online distribution of digital media other than software. First, a brief introduction to the *UsedSoft* proceedings before the CJEU will be given. Then the *UsedSoft* proceedings in Germany after the CJEU judgment was rendered will be considered, followed by an analysis of a subsequent German judgment regarding over-restrictive licences in respect to software. Then pre- and post-*UsedSoft* German case law concerning video games as well as e-books and audio books cases will be examined. Finally, a brief review of very recent and still pending CJEU case law on digital exhaustion concerning video games, e-books and similar content will be given. The presented German and CJEU case law will then be critically reflected upon and the present relevance of *UsedSoft* will be established.

## The *Usedsoft* proceedings and the resale of software in the EU

### A brief introduction to the *Usedsoft* case before the CJEU

The *UsedSoft* case was a dispute between UsedSoft, a German reseller of “used” software, and Oracle, an American multinational corporation that develops software. UsedSoft had been selling used Oracle software since 2005 and in 2007 Oracle brought a case against the company before the Regional Court in Munich (Landgericht München). *Oracle* succeeded in obtaining

<sup>1</sup> This article is written on the basis of the author’s master’s thesis titled “Dilemma of the exhaustion principle in the digital economy: The impact of *UsedSoft* in practice and theory in the EU and US” (June 2014), Law and Technology master’s programme, Tilburg Law School — Tilburg Institute for Law, Technology and Society, Tilburg University.

\* PhD researcher at Tilburg Institute for Law, Technology and Society, Tilburg University.

<sup>2</sup> Emma Linklater, “UsedSoft and the Big Bang Theory: Is the e-Exhaustion Meteor about to Strike?” (2014) 5 J.I.P.I.T.E.C. 12, 17.

<sup>3</sup> e.g. Paul L.C. Torremans, “The future implications of the *UsedSoft* decision”, CREATE 2 Working Paper 2014/2 (2014), <http://www.create.ac.uk/publications/future-implications-usedsoft/> [Accessed April 20, 2015].

<sup>4</sup> *Half-life 2* (BGH I ZR 178/08, 2010), OLG Karlsruhe (6 U 18/10, 2011), OLG Düsseldorf (I-20 U 247/08, 2009) for example; Peter Bräutigam, “Second-hand software in Europe, Thoughts on three questions of the German Federal Court of Justice referred to the Court of Justice of the European Union” (2012) 1 *CRi* 1.

an injunction, which ordered UsedSoft to stop reselling Oracle software. UsedSoft appealed this decision but the leave to appeal was refused. Thereafter it lodged an appeal with the Federal Court in Germany (Bundesgerichtshof—BGH), which then stayed the proceedings and referred three questions to the CJEU in the procedure for a preliminary ruling:

- “(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 Directive 2009/24?”
- (2) If the reply to the first question is in the affirmative: is the right to distribute a copy of a computer program exhausted in accordance with the first half-sentence of Article 4(2) of Directive 2009/24 when the acquirer has made the copy with the rightholder’s consent by downloading the program from the internet onto a data carrier?”
- (3) If the reply to the second question is also in the affirmative: can a person who has acquired a ‘used’ software licence for generating a program copy as ‘lawful acquirer’ under Article 5(1) and the first half-sentence of Article 4(2) of Directive 2009/24 also rely on exhaustion of the right to distribute the copy of the computer program made by the first acquirer with the rightholder’s consent by downloading the program from the internet onto a data carrier if the first acquirer has erased his program copy or no longer uses it?”<sup>5</sup>

The main question of the case was whether the exhaustion principle can apply to online software distribution models such as a download, accompanied by a more or less restrictive licence. The exhaustion principle is one of the key limitations to exclusive economic rights of the right holder; more specifically, it is the exception to the right holder’s distribution right. In principle the underlying idea of copyright law is such that a balance between the interests of the right holder and those of the user must be found—certain exceptions and limitations to copyright take care of the interests of the users. However, from the mid-1990s onwards a different trend in copyright law emerged, aiming to limit the limitations and exceptions

to the narrowest possible amount, tilting the scale very much in favour of the right holder.<sup>6</sup> This is most easily seen in Recitals to the 2001 Copyright Directive,<sup>7</sup> especially Recitals 9, 10, 11, 21, 23, 24 and 47, which state that strong protections of the right holder’s rights are needed. The justification for this new trend can be seen in the transition to a digital economy, in which the possibilities of infringing copyright (the right holder’s exclusive economic rights) have grown to an unprecedented degree owing to the ease of copying digital files and the fact that use and reproduction (almost) do not affect the quality of the digital file itself.

Article 4(2) of the Software Directive<sup>8</sup> states that the right holder’s distribution right will be exhausted by a first sale of a copy of the program by the right holder or with her consent in the European Community:

“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.”

The key requirement in order for exhaustion to occur is, thus, a sale. However, a sale is not defined in the Software, or any other, Directive. Since the primary objective of EU integration is free movement of goods and services, a unified interpretation of European-level provisions is required in order to achieve this goal. That is why provisions of the Software (and the general Copyright) Directive must be interpreted in an EU-autonomous way, meaning that a “sale” must also be interpreted in an EU-autonomous way. In light of this, it can be seen that the idea of EU exhaustion is not inherent in intellectual property (IP) theory in general; rather, it is an external restriction based on the rationality of the EU market.<sup>9</sup>

In *UsedSoft* the CJEU applied the so-called “offline-online equivalence” principle, when interpreting a sale.<sup>10</sup> This principle requires exhaustion to apply to intangible copies of software (and other digital goods) just as it does to tangible ones, because the situation online is *in essence* comparable to the situation offline.<sup>11</sup> In *UsedSoft* the CJEU thus concluded that a sale occurs even in online situations, when a perpetual licence for use (the right to use the software without a time-limit) is granted and the right holder obtains appropriate economic remuneration. The court saw an indivisible whole between

<sup>5</sup> *UsedSoft GmbH v Oracle International Corp* (C-128/11) EU:C:2012:407; [2012] 3 C.M.L.R. 44 at [34].

<sup>6</sup> Estelle Derclaye, “Introduction” in Estelle Derclaye (ed.), *Research Handbook on the Future of EU Copyright* (Cheltenham: Edward Elgar, 2009), p.17; see also other contributions in the *Research Handbook*, and Savič, “Dilemma of the exhaustion principle in the digital economy” (Dissertation, Tilburg Law School, 2014).

<sup>7</sup> Directive 2001/29 on the harmonisation of certain aspects of copyright and related rights in the information society.

<sup>8</sup> Directive 2009/24 on the legal protection of computer programs (codified version).

<sup>9</sup> Torremans, “The future implications of the UsedSoft decision”, CREATE 2 Working Paper 2014/2 (2014), <http://www.create.ac.uk/publications/future-implications-usedsoft/> [Accessed April 20, 2015].

<sup>10</sup> “The concept of online and offline equivalence principle began with the Bonn Ministerial Conference Declaration in 1997, when the Ministers stressed that the general frameworks should be applied on-line as they are offline. This principle is also indirectly embodied in Recital 5 of the Copyright Directive, which states that ‘no new concepts for the protection of intellectual property are needed’”; see Savič, “Dilemma of the exhaustion principle in the digital economy” (Dissertation, Tilburg Law School, 2014), p.24.

<sup>11</sup> Furthermore, otherwise the underlying principles of copyright law would be undermined and normative confusion would be caused, which could lead to consumer insecurity. It also seems to be firmly entrenched in the public sense of justice; see: Maurice H.M. Schellekens, “What holds off-line, also holds on-line?” in *Starting Points of ICT Regulation: Deconstructing Prevalent Policy One-Liners*, Vol.9, IT & Law Series (The Hague: T.M.C. Asser Press, 2006); Eric T. Tai, “Exhaustion and online delivery of digital works” [2003] E.I.P.R. 207.

the download and the licence, since the download would be pointless without the grant of the licence. Consequently, the CJEU concluded, when such an online sale occurs the distribution right is exhausted. A strict grammatical and historical interpretation of the exhaustion principle as stated in art.4(2) of the Software Directive and its Recitals would not necessarily lead to such a conclusion. First, the common interpretation of a *copy* of software (and other works falling under the Copyright Directive) requires a physical embodiment. Secondly, it would lead to a situation where the first acquirer (purchaser) of the software could resell her copy of downloaded software but the second acquirer would not become a lawful acquirer, because the reproduction right of the copyright holder would be infringed—since a new copy needed to be made in order to “transfer” the software. The CJEU dealt with the first issue by relying upon Recital 7 of the Software Directive, which states that it refers to a computer program in any form. The court dealt with the second issue based on a specific exception in the Software Directive, not found in the Copyright Directive, from art.5(1), which states that, in the absence of specific contractual provisions, acts of reproduction (translation, adaptation, arrangement and any other alteration of a computer program and the reproduction of the results thereof)<sup>12</sup> will not require authorisation by the right holder, where they are necessary for the use of the computer program by the lawful acquirer in accordance with its intended purpose, including for error correction. The CJEU based its decision on this specific exception of the Software Directive, interpreting the Software Directive as *lex specialis* in regard to the general Copyright Directive.<sup>13</sup> The second acquirer is, hence, a lawful acquirer when she makes a copy of the software which is necessary for its use, and uses it in line with its intended purpose. The first acquirer must also make her copy unusable.<sup>14</sup> In the *UsedSoft* case the CJEU thus decided that exhaustion does apply to online distribution models such as a download of software (in this case server-client software) when a perpetual licence for use is granted and the right holder obtains satisfactory economic remuneration, since a sale has de facto occurred. Consequently, the second acquirer is a lawful acquirer within the meaning of the Software Directive.

### *The Usedsoft proceedings and resale of software in Germany*

The German proceedings between Oracle and UsedSoft reached the highest instance in Germany, the Federal Court of Justice of Germany (BGH), when UsedSoft, after an unsuccessful appeal to the Higher Regional Court

in Munich (Oberlandgericht München), lodged an appeal (*die Revision*) to the BGH. The BGH decided to stay the proceedings and refer the three questions for a preliminary ruling to the CJEU. After receiving an answer from the CJEU, the BGH rendered its ruling.<sup>15</sup> As was expected (decisions of the CJEU being binding in all Member States), the highest German court complied with the criteria for “digital copyright exhaustion” that the CJEU had established in its *UsedSoft* decision. The BGH thus granted the appeal to UsedSoft, the prior ruling against the company by the Higher Regional Court in Munich from 2009 was annulled and the dispute was referred back to the Munich Court for a new trial. However, the BGH also gave specific instructions to the Munich Court, “guidelines for practical implementation”, constituting the foundation of the new proceedings, which might constitute considerable obstacles for digital exhaustion in practice.<sup>16</sup> The guidelines stated under which circumstances the distribution right of the right holder can be deemed exhausted—when:

- appropriate economic remuneration was achieved by the right holder (here the BGH concluded that it shall be assumed that when the right holder has agreed to the download of a copy of the software, he has agreed that the price charged for the software enables him to achieve appropriate economic remuneration);
- the right holder granted the original purchaser the right to use the copy without any time-limit (a perpetual licence);
- improvements, updates and in other additional services must be covered in a maintenance or service contract concluded between the copyright owner and the original buyer, if exhaustion is to apply to such improved and updated copies;
- the original purchaser made her copy unusable; and
- the lawful acquirer is entitled only to those actions that constitute intended use of the computer program.<sup>17</sup>

Most importantly, the BGH concluded that the party claiming that exhaustion of the distribution right has occurred (that the consent of the right holder for the transfer and reproduction of a computer program is not required) is the one that bears the burden of proof that the stated requirements for exhaustion are met.<sup>18</sup> In the remanded case *UsedSoft* will therefore, first, need to prove satisfactory economic remuneration of the right

<sup>12</sup> Software Directive art.4(1)(a) and 4(1)(b).

<sup>13</sup> Based on art.1(2)(a) of the Copyright Directive, which states that its provisions shall have no bearing on the Software Directive.

<sup>14</sup> Here the CJEU did not go into any detail about how that should be achieved; it only abstractly encouraged the use of digital rights management (DRM).

<sup>15</sup> BGH I ZR 129/08, July 17, 2013, *UsedSoft*.

<sup>16</sup> Under section E (“Für das weitere Verfahren weist der Senat auf Folgendes hin”) of the BGH *UsedSoft* judgment, p.25.

<sup>17</sup> BGH *UsedSoft* judgment at [55]–[68].

<sup>18</sup> Relying on the provision §69d para.1 of the German Copyright Act and art.5(1) of the Software Directive; “BGH: Weitervertrieb ‘gebrauchter’ Softwarelizenzen — Usedsoft II” (July 20, 2013), Telemedicus Recht der Informationsgesellschaft, <http://www.telemedicus.info/urteile/Urheberrecht/1435-BGH-Az-I-ZR-12908-Weitervertrieb-gebrauchter-Softwarelizenzen-Usedsoft-II.html> [Accessed April 20, 2015].

holder, for which mere opportunity to achieve it will suffice.<sup>19</sup> It will probably be more problematic for UsedSoft (and future parties in similar cases) to prove that additional services were included in the maintenance or service contract concluded already between the original buyer and the right holder and, moreover, that the sold software was actually rendered unusable by the original buyer. So far, UsedSoft used notary attestations, in which the original purchaser declared that she was no longer using the software. However, the BGH decided that this was not sufficient, since a notary attestation only confirms that the notary submitted a statement of the original licensee, according to which she paid full price for the software and no longer uses it. The BGH did not give any example of what would constitute appropriate proof of this, though. The BGH also did not allow for the possibility of licences for a limited amount of time but that are worthless when they expire (e.g. a licence for 20 years for a certain type of software, which is not being used at the time when it expires). The BGH also pointed out that serious risk of copyright infringement exists, when the subsequent lawful acquirer of the software was not provided with the original or a copy of the licence agreement concluded between the copyright holder and the original purchaser, in which the extent of the intended user rights can be found. Again, UsedSoft must bear the burden of proof that their customers (subsequent acquirers) were provided the intended use information in a suitable manner. The application of abstract “guidelines for implementations” given by the BGH, and especially of the required proof in cases before lower German courts, could lead to very different interpretations, offering different levels of freedoms and protection in the digital environment.

### ***The SAP judgment: restricting the resale of software after Usedsoft***

In the case between SAP and Susensoftware (the *SAP* case) before the Regional Court in Hamburg (Landgericht Hamburg),<sup>20</sup> the tables were turned and it was Susensoftware, a German reseller of used SAP and Microsoft software licences, that sued SAP, a German software manufacturer, one of the biggest software developers in Europe and beyond.<sup>21</sup> Susensoftware has been trading in used SAP licences since 2003, but it was in 2012 after SAP blocked a deal worth about €30,000 for Susensoftware that the software reseller brought the case to court.<sup>22</sup> The reseller claimed that SAP was engaged in unfair business practices by using licensing terms which unfairly restricted the reselling of SAP software, because SAP’s general terms and conditions (GTCs) allowed the resale of its software only with SAP’s written consent.<sup>23</sup> Another clause of the GTCs required the purchase of additional licences by third parties exclusively from SAP in order to be able to use the software in a way that exceeded what was provided for under the agreement between the original purchaser and SAP.<sup>24</sup> Susensoftware claimed that SAP’s consent clause represented a breach of competition law, since it was linking the resale of software with consent, which is contrary to principles of commercial law concerning ownership (in breach of §307 of the German Civil Code—Bürgerliches Gesetzbuch—BGB) and to the copyright exhaustion principle.<sup>25</sup> In its judgment the Hamburg court referred to the *UsedSoft* decision and found that the two clauses in SAP’s GTCs were not compatible with EU copyright exhaustion law and were also anti-competitive (in breach of §307 BGB).<sup>26</sup> The Hamburg court invalidated the first clause because it was not in accordance with the *UsedSoft* decision, which generally permitted the trade in used software, and the second clause on the basis that it required buyers of SAP software to acquire additional licences exclusively from SAP and not from third-party

<sup>19</sup> What is decisive is simply whether the applicant had the possibility to receive a value appropriate fee. A similar decision was reached in the German case of *Adobe v UsedSoft* in 2012 (11 U 68/11, OLG Frankfurt am Main, December 18, 2012), when the Higher Regional Court in Frankfurt (Oberlandesgericht Frankfurt) decided that the efficiency of pricing policies of the applicant is not for courts to review, even in the case of offering special contract terms and discounts, possibly leading to remuneration below the profit zone. The licences in this case were educational licences, thus issued under specifically favourable grounds for the appropriate original purchasers. The court, nevertheless, concluded that the fact that Adobe has given a special discount for educational institutions plays no role. This case has been appealed, and the BGH (possibly seeking instruction again from the CJEU) will need to give an answer soon, as to whether the Frankfurt court interpreted the *UsedSoft* decision properly in regard to satisfactory economic remuneration; see Savič, “Dilemma of the exhaustion principle in the digital economy” (Dissertation, Tilburg Law School, 2014), p.31.

<sup>20</sup> LG Hamburg 315 O 449/12, October 25, 2013, *SAP* judgment.

<sup>21</sup> Susensoftware, “The SAP business model (1/6): Why is Susensoftware suing the company” (July 11, 2013), <http://www.susensoftware.com/news/news/3080192/the-sap-business-model-16/> [Accessed April 20, 2015].

<sup>22</sup> Loek Essers, “SAP can’t restrict software resales, German court rules” (October 28, 2013), <http://www.pcworld.com/article/2058460/sap-cant-restrict-software-resales-german-court-rules.html> [Accessed April 20, 2015].

<sup>23</sup> “Transfer of SAP software requires, in each case, the written consent of SAP...”: see Susensoftware, “The SAP business model (1/6): Why is Susensoftware suing the company” (July 11, 2013), <http://www.susensoftware.com/news/news/3080192/the-sap-business-model-16/> [Accessed April 20, 2015]. 11.07.2013.

<sup>24</sup> “Any use of SAP software that goes beyond the contractual agreements must be notified to SAP in advance, in writing. This needs a separate contract with SAP on the additional scope of use (acquisition)”: see Susensoftware, “Legally valid judgment against SAP” (July 15, 2014), <http://www.susensoftware.com/news/news/4325376/legally-valid-judgment-against-sap/> [Accessed April 20, 2015].

<sup>25</sup> Fabian Rack, “LG Hamburg kippt Weiterverkaufsverbot von SAP-Lizenzen” (October 25, 2013), <http://www.telemedicus.info/article/2658-LG-Hamburg-kippt-Weiterverkaufsverbot-von-SAP-Lizenzen.html> [Accessed April 20, 2015].

<sup>26</sup> The resale of the right should not be restricted by contractual clauses. The terms and conditions clause is hindering the applicant in its competitive development and constitutes a breach of §4 of the Act against Unfair Competition (UWG) represents the defendant so that jock from the market; see Frank Weiß, “Kein Weiterverkaufsverbot von SAP-Lizenzen” (November 23, 2013), <http://www.ratgeberrecht.eu/wettbewerbsrecht-aktuell/kein-weiterverkaufsverbot-von-sap-lizenzen.html> [Accessed April 20, 2015].

resellers, amounting to unjustified competitive advantage by SAP.<sup>27</sup> The Hamburg court did not go much deeper into substantive reasons for its decision, at least concerning the reasons for invalidating the clause requiring consent for resale. SAP appealed the judgment<sup>28</sup> but withdrew the appeal on July 1, 2014,<sup>29</sup> so that the decision against SAP is now final. SAP stated that the reason for withdrawing the appeal was because the company changed the clauses in the context of an overall revision of its GTCs, which were the subject-matter of the appeal.<sup>30</sup> However, another consequence of the withdrawal of the appeal is also that the decision in the matter remains at the first instance, which, also in a continental civil law system, does not carry as much weight as a higher instance judgment.

## Exhaustion and other types of digital goods

### Video games

As with software, the video games industry also constitutes a very valuable market.<sup>31</sup> Because of the great value of the video games market the potential impact of the *UsedSoft* judgment upon it is of great interest to many. However, the classification of video games as software under the Software Directive or as artistic works under the Copyright Directive is still quite unclear. A video game is usually defined as “an electronic or computerized game played by manipulating images on a video display or television screen”,<sup>32</sup> where software is instrumental in order to play the video game. The Software Directive does not give a definition of a computer program; it only states in art.1(2) that it protects the expression of a computer program in any form, except for ideas and principles which underlie any elements of a computer program, including those underlying its interfaces. The

explanatory memorandum to the Proposal for the Software Directive<sup>33</sup> described a computer program as a set of instructions the purpose of which is to cause an information processing device, a computer, to perform its functions, which shall be protected only if it is original in the sense that it is the author’s own intellectual creation (art.1(3)).<sup>34</sup> In the Recitals of the Software Directive, it is also stated that in respect of the criteria to be applied whether or not a computer program is an original work, no tests as to the qualitative or aesthetic merits of the program should be applied. Although it is undisputed that software is essential in order to play a video game, video games also have audiovisual and cinematographic elements that go substantially beyond the understanding of a computer program found in the Software Directive. Video games, thus, fall into two domains of copyright law—certain elements can be classified as software under the Software Directive and others as audiovisual and cinematographic (artistic) works<sup>35</sup> under the Copyright Directive.

The relationship between the audiovisual and cinematographic elements of video games and their software elements, however, has proven to a quite complicated matter, as can also be seen from recent CJEU case law. In the 2010 *Bezpečnostní*<sup>36</sup> and 2012 *SAS*<sup>37</sup> judgments the CJEU addressed different elements of a computer program itself, attempting to clarify what can and cannot be protected by copyright as a computer program under the Software Directive, while leaving open the possibility of copyright protection of parts of software as artistic or literary works under the Copyright Directive. When the BGH<sup>38</sup> referred a question for a preliminary ruling to the CJEU in February 2013 about effective technological protection measures in video games, which the BGH described as “hybrid products”, the CJEU finally specifically addressed copyright protection of video games in its *Nintendo v PC Box (Nintendo)* judgment of

<sup>27</sup> “Conditions placed on SAP software licensees invalidated following complaints by German reseller” (December 4, 2013), Out-law, <http://www.out-law.com/en/articles/2013/december/conditions-placed-on-sap-software-licensees-invalidated-following-complaints-by-german-reseller/> [Accessed April 20, 2015].

<sup>28</sup> OLG Hamburg, 3 U 188/13.

<sup>29</sup> Susensoftware, “Legally valid judgment against SAP — Comment on the process (1/2)” (July 15, 2014), <http://www.susensoftware.com/news/news/4521984/legally-valid-judgment-against-sap-comment-on-the-process/> [Accessed April 20, 2015].

<sup>30</sup> Susensoftware, “Legally valid judgment against SAP” (July 15, 2014), <http://www.susensoftware.com/news/news/4521984/legally-valid-judgment-against-sap-comment-on-the-process/> [Accessed April 20, 2015].

<sup>31</sup> In 2009 France, Germany, Italy, Spain and the UK accounted for US\$15.2 billion, nearly 30% of the global video games market, according to a 2010 EU report; F. Willem Grosheide, Herwin Roerdink and Karianne Thomas, “Intellectual property protection for video games: A view from the European Union” (2014) 9(1) *Journal of International Commercial Law and Technology* 1, 2.

<sup>32</sup> Grosheide, Roerdink and Thomas, “Intellectual property protection for video games” (2014) 9(1) *Journal of International Commercial Law and Technology* 1; taken from the European Commission, “Study on the economy of culture in Europe” (October 2006), [http://ec.europa.eu/culture/library/studies/cultural-economy\\_en.pdf](http://ec.europa.eu/culture/library/studies/cultural-economy_en.pdf) [Accessed April 24, 2015].

<sup>33</sup> Proposal for a Council Directive on the legal protection of computer programs, COM(88) 816 final (March 17, 1989).

<sup>34</sup> Grosheide, Roerdink and Thomas, “Intellectual property protection for video games” (2014) 9(1) *Journal of International Commercial Law and Technology* 1, 4.

<sup>35</sup> The binding international copyright regulations do not contain definitions of the terms “audiovisual” or “cinematographic work”, and the list of copyright-protectable works in art.2 of the Berne Convention is open; see Grosheide, Roerdink and Thomas, “Intellectual property protection for video games” (2014) 9(1) *Journal of International Commercial Law and Technology* 1, 9–10.

<sup>36</sup> In *Bezpečnostní softwarová asociace v Svaz softwarové ochrany v Ministerstvo kultury* (C-393/09) EU:C:2010:816; [2011] E.C.D.R. 3, the CJEU concluded that the object of protection conferred by the Software Directive is expression in any form of a computer program which permits reproduction in different computer languages, such as the source code and the object code. The graphic user interface (GUI), on the other hand, is an interaction interface which enables communication between the computer program and the user, which does not enable the reproduction of the computer program, but rather constitutes one element of the program by means of which users make use of the features of that program. Nevertheless, the CJEU made it clear that the possibility of copyright protection for GUI exists under the Copyright Directive, if the work is its author’s own intellectual creation (the expression must not be dictated by their technical function, so that different methods of implementing an idea are so limited that the idea and the expression become indivisible) (at [35]–[49]).

<sup>37</sup> In *SAS Institute Inc v World Programming Ltd* (C-406/10) EU:C:2012:259; [2012] 3 C.M.L.R. 4, the conclusions of the *Bezpečnostní* judgment were confirmed by the SAS decision, in which the CJEU decided that also the programming language and the format of data files used in a computer program in order to exploit certain of its functions do not constitute a form of expression of the computer program according to the Software Directive. Again, the court confirmed that they might be protected as artistic works under the Copyright Directive, if they are the author’s own intellectual creation (at [39]).

<sup>38</sup> BGH, I ZR 124/11 (February 6, 2013).

January 2014.<sup>39</sup> In this judgment the CJEU referred to, among other things, the question of applicability of the Software Directive and the general Copyright Directive to video games, stating that:

“Videogames ... constitute complex matter comprising not only a computer program but also graphic and sound elements, which, although encrypted in computer language, have a unique creative value which cannot be reduced to that encryption. In so far as the parts of a videogame ... are part of its originality, they are protected, *together with the entire work*, by copyright in the context of the system established by Directive 2001/29 [Copyright Directive].”<sup>40</sup>

The CJEU thus concluded that the *lex specialis* status of the Software Directive means that its provisions take precedence over those in the Copyright Directive—however, only in the case where the subject-matter falls entirely within the scope of the Software Directive. The CJEU held that video games cannot be considered as *only* computer programs because they contain other creative works which have to be assessed separately from the computer program underlying the video game, and consequently, the video game as a whole must be considered as an artistic work under the Copyright Directive. From the CJEU case law it thus seems that the *UsedSoft* judgment is not applicable to video games.

## “Pre-Usedsoft” German case law—Half-Life 2

The issue of reselling video games was addressed already prior to the *UsedSoft* judgment in the influential *Half-Life 2* decision from 2010 by the BGH.<sup>41</sup> The German consumer protection organisation Verbraucher Zentrale (VZBV) sued Valve Inc, the operator of the popular PC games digital distribution platform Steam, regarding the sale of the video game *Half-Life 2* on DVD-ROM in Germany. Playing the game, namely, required the creation of a user account, which could only be created once and, pursuant to the provisions of the accompanying EULA, could not be transferred. The BGH was asked to decide whether such a restriction was in breach of the exhaustion principle.<sup>42</sup>

German civil law has a strict set of rules in respect to what is permitted and what is not in standard contracts used in business-to-consumer relationships, where clauses

are regarded as, among other things, unenforceable if they deviate from essential principles of statutory provisions in a way that puts customers at an unreasonable disadvantage.<sup>43</sup> VZBV has been arguing for years that one such statutory provision is the doctrine of exhaustion—if copyright law, through the exhaustion principle, allows the resale of used video games on DVDs, then a clause in a standard contract restricting the transfer of an online account necessary to play the game is at odds with the basic principles of statutory law, and hence is unreasonable, abusive and consequently unenforceable.<sup>44</sup> In this case, the BGH made a strict distinction between the physical DVD and the user account, holding that the restriction was legitimate since it only affected the user account but not the physical copy.<sup>45</sup> The court concluded that the original purchaser of a DVD is neither legally nor actually prevented from reselling the physical DVD, since the disputed provisions of the terms and conditions prohibit only the transfer of the user account. The court was of the opinion that the fact that third parties may have no interest in purchasing the DVD, if they cannot use it to play the game on the servers of the defendant, does not represent a breach of the copyright exhaustion principle. The BGH concluded that concerning the prohibition of transfer of the user account there was no breach of the exhaustion principle, because a physical embodiment is required for the exhaustion principle to apply. The BGH dismissed the case (*hat die Revision zurückgewiesen*),<sup>46</sup> stating that while the doctrine of exhaustion limited the right holders’ powers in regard to a DVD, it did not require them to design their business in a way that facilitated the sale of used games and therefore did not make Steam’s terms of service unenforceable.<sup>47</sup> The BGH ruled that the transfer of user accounts as such may be restricted when a game that can only be activated through online registration is sold, even if this would effectively make the resale of the game impossible. The court stated that a crucial aspect of the case was also that the game could not be played offline—a constant internet connection with Steam servers was needed. Consequently, limitations to the legal or factual marketability of a product (also its resale), which do not result from the application of the distribution right of the copyright holder, but are for example based on the specific design of the work in question, do not breach the exhaustion principle. Valve’s terms prohibiting the transfer of the account were, thus, upheld. In the opinion of many commentators, this judgment constitutes a “precedent” for all digital media including software, video games,

<sup>39</sup> *Nintendo Co Ltd v PC Box Srl* (C-355/12) EU:C:2013:581; [2014] E.C.D.R. 6.

<sup>40</sup> *Nintendo v PC Box* EU:C:2013:581; [2014] E.C.D.R. 6 at [23] (emphasis added).

<sup>41</sup> I ZR 178/08, *Half-Life 2*, February 11, 2010.

<sup>42</sup> Torsten Kraul, “Game over for used software?”, Hogan Lovells *Intellectual Property Quarterly* (January 2011), <http://documents.lexology.com/a9ae6a6a-694e-45b6-82ae-4f13a541d117.pdf> [Accessed April 20, 2015].

<sup>43</sup> Konstantin Ewald and Felix Hilgert, “Despite UsedSoft — German court rules Valve may prohibit Steam account transfers” (February 2, 2014), <http://www.osborneclarke.com/connected-insights/publications/despite-usedsoft-german-court-rules-valve-may-prohibit-steam-account-transfers/> [Accessed April 20, 2015].

<sup>44</sup> Ewald and Hilgert, “Despite UsedSoft” (February 2, 2014), <http://www.osborneclarke.com/connected-insights/publications/despite-usedsoft-german-court-rules-valve-may-prohibit-steam-account-transfers/> [Accessed April 20, 2015].

<sup>45</sup> I ZR 178/08, *Half-Life 2*, February 11, 2010 at [24].

<sup>46</sup> “[D]er BGH ... hat die Revision der Klägerin zurückgewiesen”: Thomas Stadler, “BGH: Half-life 2” (August 3, 2010), *Internet-Law*, <http://www.internet-law.de/2010/08/bgh-half-life-2.html> [Accessed April 20, 2015].

<sup>47</sup> I ZR 178/08, *Half-Life 2*, February 11, 2010 at [23].

music, e-books and films, the resale of which may be controlled through user accounts in case of offline sales and through mere licensing conditions in case of online distribution.<sup>48</sup> The *Half-Life 2* judgment indeed proved to be a very influential judgment, which lower German courts have been faithfully following ever since, even after *UsedSoft*, especially the part of the judgment stating that physical embodiment is required for exhaustion to apply. The rather artificial strict distinction between the user account and the game itself (distributed on a DVD) has not been questioned by German courts.

### “Post-Usedsoft” German case law—the Valve judgment

The issue of reselling video games was considered again in 2013 in Germany. The case was again filed by VZBV against *Valve*<sup>49</sup> over clauses in Valve’s GTCs that prohibited the transfer of user accounts on the Steam digital distribution platform, clauses almost identical to the ones in the *Half-Life 2* case; however, there were no physical DVDs involved this time.<sup>50</sup> VZBV decided to try their luck again after the promising CJEU *UsedSoft* judgment, believing that it would result in overturning the previous *Half-Life 2* decision by the BGH, at least to a certain extent.<sup>51</sup> It argued that according to the *UsedSoft* decision the transfer of used licences for software downloaded from the internet is legitimate and cannot be prohibited by the copyright holder because the doctrine of exhaustion applies to digitally distributed software as well. Moreover, it argued that such restrictive licensing is in breach of §307 of the BGB, since it renders an unreasonable disadvantage for users through use of standard contractual terms. However, the District Court in Berlin (Landgericht Berlin) found the case against Valve yet again as unfounded, following the reasoning of the BGH in the *Half-Life 2* decision in many instances.

The Berlin court acknowledged the *UsedSoft* decision but concluded that the Steam service is not comparable to the situation before the CJEU in *UsedSoft*, because the facts of the case differ significantly from those in the CJEU case. Consequently, the *UsedSoft* decision has no bearing for the case at hand. The court stated that in the *UsedSoft* case exhaustion extended to the licence because the licence agreement and download of the copy were regarded as an indivisible whole by the CJEU.<sup>52</sup> In the case before the Berlin court, however, the software was

independent of the user’s computer, since it did not run locally and required a constant internet connection with Steam servers. The CJEU also stated in *UsedSoft* that contracts for services (such as maintenance contracts) connected to the software can be separated from the sale of the software itself, thus evading the exhaustion principle.<sup>53</sup> The Berlin court considered the Steam service to contain a vast number of additional and separate services, such as “matchmaking”, updates, multiplayer experience, a social networking feature (creating a virtual personality for the user) and means for the user to create her own modifications to the games, concluding that the “extended” doctrine of exhaustion does not apply to them.<sup>54</sup> The court emphasised that, in order to offer such additional features, Valve needs to maintain a substantial infrastructure with additional costs. In this case, the court decided, a sale does not occur; rather, an “online service” is offered (the making available to the public rather than the distribution right is exercised by the right holder). In this case this was not seen as just a form of marketing speech because the copyright holder neither granted a perpetual right to use the program nor was he sufficiently economically compensated by the one-time payment he received. The user’s continuous obligation as written down in the terms of service thus constituted a part of his appropriate monetary compensation. The Berlin court concluded that there was no breach of the exhaustion principle, since exhaustion does not apply to forms of online services.<sup>55</sup>

The Berlin court actually went beyond this reasoning and hinted that it does not consider the *UsedSoft* digital exhaustion to be applicable to video games at all.<sup>56</sup> This is due to the interpretation that video games fundamentally differ from “mere” software because of their audiovisual and cinematographic content, making them “hybrid products”, which enables protection under the Copyright Directive alongside the Software Directive. The court stated:

“It can be left undetermined whether the CJEU *UsedSoft* decision made clear that the principle of exhaustion from §69c 3/2 of the [German] Copyright Act and art. 4 para. 2 of the Software Directive applies also to online distribution of complex computer games, or that they *also* as cinematographic works enjoy copyright protection (§ 2 Abs. 1 Nr. 6 of the Copyright Act), thus falling under the Copyright Directive as well [alongside the

<sup>48</sup> Kraul, “Game over for used software?”, Hogan Lovells *Intellectual Property Quarterly* (January 2011), <http://documents.lexology.com/a9ae6a6a-694e-45b6-82ae-4f13a541d117.pdf> [Accessed April 20, 2015].

<sup>49</sup> 15 O 56/13, *Valve*, January 21, 2014, <http://www.telemedicus.info/urteile/Urheberrecht/1442-LG-Berlin-Az-15-O-5613-Erschoepfungsgrundsatz-nicht-bzgl.-UEbertragbarkeit-von-Nutzerkonten-Steam-Accounts.html> [Accessed April 20, 2015].

<sup>50</sup> Marcus Dittmann, “Valve under pressure for forbidding transfer of user accounts”, [http://www.onlinelaw.de/de/aktuelles/it\\_news.php?we\\_objectID=340&pid=0](http://www.onlinelaw.de/de/aktuelles/it_news.php?we_objectID=340&pid=0) [Accessed April 20, 2015].

<sup>51</sup> Dittmann, *Valve under pressure for forbidding transfer of user accounts*, [http://www.onlinelaw.de/de/aktuelles/it\\_news.php?we\\_objectID=340&pid=0](http://www.onlinelaw.de/de/aktuelles/it_news.php?we_objectID=340&pid=0) [Accessed April 20, 2015].

<sup>52</sup> *Valve* judgment, *Entscheidungsgründe*, 2, second paragraph of (bbb), <http://www.telemedicus.info/urteile/Urheberrecht/1442-LG-Berlin-Az-15-O-5613-Erschoepfungsgrundsatz-nicht-bzgl.-UEbertragbarkeit-von-Nutzerkonten-Steam-Accounts.html> [Accessed April 20, 2015].

<sup>53</sup> *Valve* judgment, *Entscheidungsgründe*, 2, fourth paragraph of (bbb), <http://www.telemedicus.info/urteile/Urheberrecht/1442-LG-Berlin-Az-15-O-5613-Erschoepfungsgrundsatz-nicht-bzgl.-UEbertragbarkeit-von-Nutzerkonten-Steam-Accounts.html> [Accessed April 20, 2015].

<sup>54</sup> *Valve* judgment, *Tatbestand*, at [3].

<sup>55</sup> *Valve* judgment, *Entscheidungsgründe*, 2, sixth paragraph of (bbb).

<sup>56</sup> *Valve* judgment, *Entscheidungsgründe*, 2, (bb), third paragraph of (c) *Anträge* zu I.B.

Software Directive], which requires a physical copy of a work to be put on the market for exhaustion to apply.<sup>57</sup>

The court referred to Recitals 28 and 29 of the Copyright Directive and the Agreed Statement to art.6 para.2 of the WIPO Copyright Treaty, which (according to the wording of the text) require a physical copy of a work to be put on the market with the copyright holder's consent in order for exhaustion to apply. The court concluded that the applicability of the Copyright Directive, with its additional requirements, alongside the Software Directive in regard to complex video games, allows the copyright holder to pose additional restrictions on online distributions such as downloads, so that the terms of service when distributing the work can be appropriately and effectively applied. The Berlin court, thus, concluded that the future decision in the CJEU *Nintendo* case (delivered two days later after the *Valve* judgment), was not relevant to this case, since it considered the relationship of the two relevant Directives against each other, whereas in this case the effects of their joint application were relevant. In view of this somewhat unusual reasoning it seems that the Berlin court was afraid that the CJEU might render a different decision—that the Software Directive with its additional exceptions and the already established digital exhaustion concerning software by the CJEU could apply to video games as well. Nevertheless, the CJEU came to the same result as the Berlin court, namely, that additional exceptions in the Software Directive enabling digital exhaustion are not applicable to video games, which constitute complex products.

### *The resale of e-books and audio books*

If video games stand somewhere in between software and artistic works and the impact of the *UsedSoft* judgment upon the field was very much unclear, then the situation in regard to “pure” artistic and literary works, which fall solely under the Copyright Directive, remains purely uncharted ground after *UsedSoft*. The common assumption of the impact of the *UsedSoft* judgment upon this area is that it simply does not apply to such works. This assumption is confirmed by recent German case law of 2011, when the Higher Regional Court in Stuttgart confirmed the legality of prohibition of resale of audio books without a physical embodiment by the right holder.<sup>58</sup> In this case the Stuttgart court rather quickly concluded that the Copyright Directive requires physical embodiment of works for exhaustion to apply. The court also stated that in regard to digital files there is always a certain reproduction involved (occurring with “transfer”,

use, modification, etc.); however, exhaustion only applies to the distribution right and never to the reproduction right. On the other hand, the Stuttgart court recognised the fact that new forms of distribution, particularly online, are constantly being developed, the classification and legal treatment of which is often more or less unknown. The court did not specify which issues it meant by this, but the distinction between classifying it as distribution, leading to exhaustion and traditionally done in the physical world (“offline”), or communication to the public, not leading to exhaustion and as a right created for certain kinds of “online transmissions”, can be seen as one such issue. It is sometimes assumed by certain courts and scholars that everything occurring over the internet should count as communication to the public and cannot count as distribution. However, there are significant distinctions between downloading or streaming, for example. The Stuttgart court saw no reason to address these issues in its judgment. In the same year as the Stuttgart court rendered its judgment, 2011, the active German consumer protection organisation VZBV commenced proceedings against an internet portal offering digital content such as films, e-books and audio books for download. The case concerned e-books and audio books, and proceedings were commenced before the District Court of Bielefeld (Landgericht Bielefeld) in 2011.<sup>59</sup> The Bielefeld court dismissed the action against the internet portal in March 2013 but VZBV lodged an appeal to the Higher Regional Court in Hamm (Oberlandesgericht Hamm). The Hamm court rendered its decision in May 2013, in which it upheld the decision of the lower court. The case concerned two clauses of the GTCs of the above-mentioned internet portal regarding the trade of e-books and audio books. The first clause stated that the customer received merely a simple, non-transferable right to use the product with the download.<sup>60</sup> The second clause stated that the downloaded digital content may not be copied for others, made publicly available, resold or used for commercial purposes. VZBV argued that these clauses are contrary to §307 of the BGB and that the restriction on resale is contrary to the *UsedSoft* decision. Because this article is primarily concerned with the possibility of application of *UsedSoft* to digital content regulated by the Copyright Directive, the main reasoning of the lower court will be examined.

The Bielefeld court dismissed the claim as unfounded, deciding that there is no breach of §307 BGB. The court concluded that the issue of legal classification of the contract between the purchaser and the right holder, whether a sale, licence or a *sui generis* contract, can be left undetermined.<sup>61</sup> Rather, what needed to be considered

<sup>57</sup> *Valve* judgment, *Entscheidungsgründe*, 2, (bb), second paragraph of (c) *Anträge* zu I.B.

<sup>58</sup> OLG Stuttgart, 2 U 49/11, November 3, 2011, confirming the judgment of the District Court in Stuttgart (LG Stuttgart, 17 O 513/10, April 14, 2011) by rejecting the appeal.

<sup>59</sup> LG Bielefeld, 4 O 191/11, e-books and audio books judgment.

<sup>60</sup> “Ein einfaches Nutzungsrecht zum ausschließlichen persönlichen Gebrauch der heruntergeladenen Daten”: see LG Bielefeld, 4 O 191/11, e-books and audio books judgment at [30].

<sup>61</sup> In this the Bielefeld court followed the BGH in its *Half-Life 2* judgment, which decided that such a classification is not necessary since use restrictions in GTCs do not change the legal status of the exchange (BGH, *Half-Life 2*, 2010, 771).

was the primary purpose of the contract and the according technical execution of the contract—in this case, facilitating and providing the possibility to use an e-book and audio book, enabling repetitive listening or viewing of the file on the local disk, which from a technical perspective represents a download and nothing more. Because making copies for third parties and reselling the file are no longer covered by the primary purpose of the contract, their prohibition does not represent an unreasonable disadvantage for the purchaser.<sup>62</sup> In this, digital files such as e-books are different from “mere” software, which requires that customers are granted more extensive use rights in order to be able to make use of the software at all (e.g. reproduction necessary for intended use, making back-up copies). The Bielefeld court, along with the Stuttgart court, was satisfied with this reasoning and did not go further into the differences *or similarities* between digital media files such as audio books and software. The Bielefeld court also dismissed the relevance of the *UsedSoft* judgment for the present case since it concerned software, which is regulated by the Software Directive as *lex specialis* in connection to the Copyright Directive. The Bielefeld court, following the Stuttgart court, concluded that in order for exhaustion to apply to the distribution right, the literary work would need to be embedded in a physical medium, as follows from the wording of the Copyright Directive and its Recitals (also confirmed by the BGH in *Half-Life2*).<sup>63</sup> Moreover, the court hinted that in regard to online services without a physical embodiment, *only* the making of the works available to the public occurs. In any case, the act of downloading digital content to a user’s computer was seen as an act of reproduction, which the exhaustion principle does not cover. The court also concluded that an analogous application of the exhaustion principle in this case is not possible, since there is no legal lacuna in the Copyright Directive; rather, the possibility of distribution (along with the exhaustion principle) of immaterial works has been deliberately excluded and the right of communication (covering the transmission of such immaterial works) purposely added.<sup>64</sup> The different treatment of user rights in the Software and Copyright Directives was seen as intentional. This way of reasoning was described as “based on legislative history” in the higher decision of the Hamm court.

Furthermore, this situation is not comparable to the offline sales of physical works, the Bielefeld court stated. The court strongly emphasised the fact that there is no loss in quality with the use of digital content and that the original copy could be retained by the original purchaser, so that the primary market for such content would break, if “used” e-books, audiobooks and other digital content were simply be allowed to be resold. The copyright holder, thus, has an understandable and justified interest in preventing an uncontrollable secondary market for such goods, which outweighs the interests of consumers in a secondary market. As these specifics of trade with digital content are well known to the average user (owing to extensive media coverage of pirated files), the court concluded that the purchaser has to face increased legal restrictions.<sup>65</sup> On the other hand, the court easily dismissed the potentially misleading ownership terminology of online sellers, which speaks of sale and purchase, accepting that the reason behind it is mere simplification of the matter and that the user should know that she cannot receive property of non-material content, and which is also made explicit in the GTCs.<sup>66</sup> In most of its arguments in the judgment the Bielefeld court faithfully followed the argumentation of the Stuttgart court.<sup>67</sup> This decision confirms the common assumption in Europe that digital media files other than software without a physical embodiment cannot be resold without the consent of the right holder.

In March 2013 VZBV appealed this judgment and the Hamm court rendered its decision in May 2014,<sup>68</sup> rejecting the appeal based on very similar reasoning as the Bielefeld and Stuttgart courts. The Hamm court recognised a similar case of the Regional Court in Hamburg, which in May 2011 also decided that exhaustion does not apply to downloaded audio books<sup>69</sup>; however, the Hamm court disagreed with its reasoning. Whereas, as the Hamm court put it, the Stuttgart court leaned primarily on legislative history in order to justify its decision, the Hamburg court relied primarily on necessary infringement of the right to reproduction, which can never be exhausted. The Hamm court was of the opinion that one can easily imagine a scenario where there is no reproduction of the file by its resale—for example, when one saves the audio book immediately by the original download to a USB disk and then resells the USB disk with the audio book on it. It thus concluded that infringement of the reproduction right

<sup>62</sup> The Bielefeld court followed the District Court in Stuttgart in this reasoning (LG Stuttgart, 17 O 513/10, April 14, 2011). The Stuttgart appeal court stated that the “transmission doctrine” (the principle of purpose transfer) states that the in author does not confer greater rights than the purpose of the contract requires. This principle in German copyright law is based on the guiding principle of the widest possible participation of the author in commercial exploitation of his work.

<sup>63</sup> “The question whether a download leads to the exhaustion of the distribution right relating to a physical copy of a work is disputed (see the status of dispute regarding copies of computer programs, BGH GRUR-Int 2011, 439) ... Exhaustion is traditionally viewed as requiring a physical copy because the principle protects only the marketability of goods in which the work is embodied and not a copy of a work, which allows unbound transmission (Schulze, in: Dreier/Schulze, *Copyright Law*, 3rd edition 2008, § 17 para 30) ... Higher regional courts reject the application of the exhaustion principle from § 69c(3)(2) of the Copyright Act to the reproduction right and forms of distribution without material embodiment (OLG München, MMR 2008, 601 ff; OLG Frankfurt, MMR 2009, 544 ff; OLG Dusseldorf, MMR 2009, 629 ff.)”: LG Bielefeld, 4 O 191/11, e-books and audio books judgment, para.2, bb, 70–72 (author’s translation).

<sup>64</sup> e.g. LG München I MMR 2007, 328; in this the Bielefeld court again followed the Stuttgart court about audio books (LG Bielefeld, 4 O 191/11, e-books and audio books judgment, ee).

<sup>65</sup> “Kein Gebrauchtverkauf von E-Books und Hörbüchern ohne Zustimmung des Rechtsinhabers” (April 22, 2013), <http://www.urheberrecht.org/news/4925/> [Accessed April 20, 2015].

<sup>66</sup> LG Bielefeld, 4 O 191/11, e-books and audio books judgment at [56].

<sup>67</sup> VZBV supposedly wants to appeal but no such appeal can be found: “Darf man e-books verkaufen?” (January 24, 2014), <https://curved.de/tips/darf-man-e-books-verkaufen-990> [Accessed April 20, 2015].

<sup>68</sup> 22 U 60/13, 15.05.2014; the decision was released in early June; the appeal was accepted only in regard to audio books.

<sup>69</sup> 312 O 414/10, September 20, 2011.

is not a good enough reason for a general prohibition of resale of audio files. One might be encouraged by such a standpoint of the court, since, in line with the very broad definition of the reproduction right, the act of playing the audio file by the person who downloaded it (along with any subsequent buyer) could be seen as reproduction. However, the court was very satisfied with the reasoning of the Stuttgart court, citing the judgment and its arguments throughout the judgment. As already mentioned, this line of reasoning is described by the court itself as in line with legislative history. The Hamm court senate concluded that there was no distribution happening in the first place, only the right of communication to the public,<sup>70</sup> to which exhaustion does not apply, as *clearly* emanates from Recital 29 of the Copyright Directive.<sup>71</sup> The senate then gave the main argument for its decision:

“The wording of these provisions speaks of copies of works. Audio books in the form of digital audio files downloaded from the Internet can be subsumed under these provisions only at first glance. On closer inspection, there is no possibility to believe that either the German or the European legislator, whose instructions the national legislator has been implementing in several stages since 1991, intended such an understanding.”<sup>72</sup>

Although the Hamm court acknowledged that copyright qualification of work exploitation in the context of on-demand services is still not very clear in the copyright framework, the right of communication to the public is something independent from and not merely a sub-type of distribution—downloading a file is something qualitatively different than distribution of a copy of work.<sup>73</sup>

“According to the prevailing opinion ... files are by definition not *distributed*, thus they cannot be *further distributed* as well. When a work is *sold* [*vertrieben*] not in physical form but for example as a download, there is *a priori* no distribution happening, only the right of communication to the public from art. 19a of the Copyright Act.”<sup>74</sup>

This can be seen from the legislative history of the enactment of the relatively new right of communication to the public, as an addition to the right of distribution. The European legislator enacted the right in the Copyright Directive in 2001 and the German legislator in the Copyright Act in 2003—both based on the 1996 WIPO Treaties.<sup>75</sup> The Hamm court concluded, based on the wording of provisions of the Copyright Directive and the national Copyright Act, Recitals to the Copyright Directive and the historical enactment of the right of

communication to the public, that the legislator had a clear intent not to establish exhaustion in regard to online services such as downloading an audio book. Consequently, an analogous application of the distribution right is not possible, since there is no legal lacuna in the law.

Furthermore, the court quickly rejected the applicability of the CJEU *UsedSoft* case, stating that the case dealt with software, specifically regulated under the Software Directive as *lex specialis*, thus having no impact on other types of digital content such as audio books, regulated under the general Copyright Directive. The Hamm court also stressed that software and other types of digital content are fundamentally qualitatively different. Consequently, art.69a of the German Copyright Act (similar to art.5 of the Software Directive) is a tailor-made solution for software, addressing specific characteristics of software, so that no analogy in regard to other types of digital content should be made. That is also why no such provision is found in the general part of the Copyright Act (or the Copyright Directive). The Hamm court also concluded that this interpretation follows also in light of European law, since the Software Directive was last amended in 2009, thus eight years younger than the Copyright Directive, so that any different rules could have been adopted. Moreover, the Hamm court denied the possibility of an appeal to the BGH, deciding that in accordance with art.543 of the ZPO (Zivilprozessordnung) the matter is not of fundamental importance, is not required for the development of the law or for the uniformity of decisions.<sup>76</sup> The parties can appeal this denial of appeal to the BGH; however, it is rather unlikely that it will be granted. The Hamm court thus denied the applicability and any relevance of the principles expressed by the CJEU in *UsedSoft*, whether directly or by analogy, beyond the narrow confines of the Software Directive, considered strictly as *lex specialis* in relation to the provisions of the Copyright Directive.

### Upcoming CJEU case law—“a new shower of meteors?”

Besides the German post-*UsedSoft* case law, there is also subsequent and pending CJEU case law on the matter, which might shed additional light on the possibility of exhaustion for artistic and literary works in digital form. One at least partially relevant decision is the already mentioned *Nintendo* judgment concerning video games. Although the *Nintendo* case did not concern exhaustion of video games per se, the judgment reaffirmed the *lex specialis* status of the Software Directive in relation to the Copyright Directive. The key message of this

<sup>70</sup> See art.3 of the Copyright Directive and art.19a of the German Copyright Act.

<sup>71</sup> Hamm Court judgment, at [51].

<sup>72</sup> Hamm Court judgment, at [57].

<sup>73</sup> Hamm court judgment, at [98] and [106]. “Audio files are also in principle not computer programs, although they may contain a little amount of components which they have in common with computer programs. However, they are not autonomous, where applicable in conjunction with the operating system, executable, but are *per se* independent of a particular operating system, thus requiring a computer program in order to perceive the sound by the senses.” See [145].

<sup>74</sup> Hamm court judgment, at [112].

<sup>75</sup> The WIPO Copyright Treaty art.8 and the WIPO Treaty on Performances and Phonograms arts 10, 14.

<sup>76</sup> Hamm Court judgment, at [164].

judgment for the matter at hand, thus, is that the special nature of the Software Directive means that its provisions take precedence over those in the Copyright Directive—however, only in the case where the subject-matter falls *entirely* within the scope of the Software Directive.<sup>77</sup> Video games, a complex product, always consisting of parts that are considered as software under the Software Directive as well as parts that are considered as artistic works (cinematographic, musical, etc.) under the Copyright Directive, thus cannot be considered in light of specific provisions (exceptions) of the Software Directive, which the CJEU in *UsedSoft* interpreted in such a way as to allow for digital exhaustion. It would, hence, seem to follow from this that there can be no resale of video games under EU law (unless provisions of the Copyright Directive were interpreted as to allow for digital exhaustion), confirming the stance of German courts concerning the matter. Apart from this judgment, two other references for a preliminary ruling, which are more closely connected to the issue of digital exhaustion have recently reached the CJEU, both originating from the Netherlands and both still in progress. The first is the *Allposters* case, in which the judgment was rendered in January 2015 and which will be more closely analysed; and the other is the *VOB* case, in which questions for a preliminary ruling have been referred to the CJEU only in September 2014.

### The *VOB* case

In the *VOB* case, a case about e-lending by public libraries, the first instance court in The Hague (Rechtbank Den Haag) referred four questions to the CJEU:

- “1. Should the articles 1 (1), 2 (1)(b) and 6 (1) of the Rental and Lending Rights Directive be thus interpreted as meaning that ‘lending’ also includes the making available:
  - for a limited amount of time
  - without a direct or indirect economic or commercial benefit
  - from a distance
  - through downloading
  - on the basis of a one user, one copy model
  - through institutions accessible by the public of a copy in digital form of copyrighted novels, collections of short stories, biographies, travel reports, children’s books and young adult literature?”
2. If question 1 is answered affirmatively, is it required for the application of the lending exception, within the meaning of the directive, that the copy that is lent by the institution has been lawfully released into circulation by the first sale or other transfer of ownership of that copy in the European Union by the copy right holder or with his permission, in the sense of article 4(2) Copyright Directive?
3. If question 2 is answered in the negative, does article 6 of the Rental and Lending rights Directive set other requirements on the origin of the lent copy, such as the requirement that the copy has been obtained from a legitimate source?
4. If question 2 is answered affirmatively, should article 4(2) Copyright Directive be interpreted as meaning that the first sale or other transfer of ownership of material referred to also includes the making available from a distance for an indefinite amount of time of a copy in digital form of copyrighted novels, collections of short stories, biographies, travel reports, children’s books and young adult literature?”<sup>78</sup>

The dispute is between Vereniging van Openbare Bibliotheken (VOB), the Dutch association of public libraries, and Stichting Leenrecht, the Dutch public lending right office, a collection agency designated to collect the lending fees, which it then redistributes to right holders. VOB decided to take legal action after the Dutch Minister for Education, Culture and Science denied libraries the right to lend e-books without the consent of right holders, stating that the public lending right exception (from art.6 of the Rental and Lending Right Directive<sup>79</sup>) only applies to physical books.<sup>80</sup> VOB is claiming that e-books should be available for loan under the model “one copy, one user,” which would allow users to download an e-book with temporary use rights, supposedly in accordance with the definition of lending in art.3(1)(b) of the Rental and Lending Right Directive: “making available for use, for a limited period of time and not for direct or indirect economic or commercial advantage, when it is made through establishments which are accessible to the public.” VOB sees similarities in its proposed online model to the lending of physical books offline. It is unclear from the claims made, however, how libraries would ensure mere temporary use of the e-book by users after they have downloaded it or how they would avoid infringement of the reproduction right. Already the

<sup>77</sup> “No exhaustion beyond software: Katfriend translates German decision on audiobooks” (July 1, 2014), IP Kat blog, <http://ipkitten.blogspot.nl/2014/07/no-exhaustion-beyond-software-katfriend.html> [Accessed April 20, 2015].

<sup>78</sup> “Summary of the judgement of the Court of Den Haag of 3 September 2014 (VOB v Stichting Leenrecht)” (September 29, 2014), <http://www.leenrecht.nl/en/VOB-Leenrecht-Judgement> [Accessed April 20, 2015].

<sup>79</sup> Directive 2006/115 on rental right and lending right and on certain rights related to copyright in the field of intellectual property (codified version).

<sup>80</sup> Based on the report “Online uitlenen van e-books door bibliotheken” (November 1, 2012), <http://www.rijksoverheid.nl/documenten-en-publicaties/rapporten/2012/11/01/online-uitlenen-van-e-books-door-bibliotheken.html>; see also “Toch even navragen: VOB spant proefprocedure aan tegen Stichting Leenrecht” (June 11, 2013), <http://rsnijders.info/vakblog/2013/06/11/toch-even-navragen-vob-stichting-leenrecht/> [Both accessed April 20, 2015].

idea of the “one-copy, one-user” model is doubtful, since (at least) one copy of the e-book will always need to exist in the system of the library. Such objections can be reasonable ground for dismissing the analogy between the online and offline situation. If the CJEU answers the second referred question in the affirmative, it will need to give an answer to the fourth referred question, which is of the highest interest for the issue discussed in this article—whether “making available from a distance for an indefinite amount of time” (e.g. a download) of digital files such as e-books can be considered a sale or other transfer of ownership according to art.4(2) of the Copyright Directive. If the CJEU directly answers this question, this case will finally give a key ruling on the matter of copyright exhaustion regarding digital files other than software. The decision is one that everybody has been waiting for and dreading at the same time, ever since *UsedSoft*. However, since the reference for a preliminary ruling in the *VOB* case was referred only very recently, there is no Opinion of the Advocate General let alone a final decision in the case. However, there is another case pending before the CJEU in which the Opinion of the Advocate General is already known and which can already shed some light on the matter.

### *The Allposters case*

The case in the *Art & Allposters International BV v Stichting Pictoright (Allposters)*<sup>81</sup> was filed in July 2013 by the Dutch Supreme Court (Hoge Raad). As the CJEU succinctly stated, the referring court in essence asked, whether exhaustion of the distribution right in art.4(2) of the Copyright Directive applies in a situation where a reproduction of a protected work, after having been marketed in the EU with the copyright holder’s consent, has undergone an alteration of its medium, such as the transfer of that reproduction from a paper poster on to a canvas, and is placed on the market again in its new form.<sup>82</sup> The parties in the proceedings were, thus, in disagreement as regards two issues:

1. first, whether exhaustion of the distribution right covers the tangible object into which the work or its copy is incorporated or the author’s own intellectual creation, and
2. secondly, whether the alteration of the medium, as undertaken by Allposters, has an impact on exhaustion of the exclusive distribution right.

The facts of the case are that the company *Art & Allposters International BV* (Allposters) sells posters and other reproductions of works of renowned painters on the internet. *Stichting Pictoright* (Pictoright) is a Dutch organisation for collective management of copyright of certain painters whose posters were being reproduced and sold by Allposters. Allposters has the right to reproduce

their paintings on *posters* and sell them; however, the company also sold reproductions of the paintings rendered on a canvas (using a special procedure called “canvas transfer”, where the poster of a painting was transferred by a chemical procedure on to a canvas). *Pictoright* filed a claim at the first instance court in Roermond (Rechtbank Roermond) claiming that Allposters did not have the right for such reproduction and sale, and demanded that *Allposters* cease such actions that amount to copyright infringement. The claim was denied in September 2010 and *Pictoright* appealed to the court in ’s Hertogenbosch (Gerechtshof te ’s Hertogenbosch), which granted the appeal in January 2012. In its argumentation the Appeal Court used a precedent of the Dutch Supreme Court from 1979, called the “*Poortvliet* doctrine”, which states that when a serious change of the product takes place, a new specific right granted by the right holder is required in order for the copyright not to be infringed. The Appeal Court decided that such a serious change of the posters had taken place with the “canvas transfer”, with which new possibilities of exploitation of the copyright arose, and therefore a new, specific grant of rights by the copyright holders was required. Allposters appealed this judgment to the Supreme Court on the grounds that the Dutch *Poortvliet* doctrine should not have been used at all, because exhaustion of the distribution right and the right of communication to the public concerning copyright have been harmonised at Union level (so that EU rules should have been used). Moreover, they claimed that any subsequent transformation of the work does not have an effect on the preceding exhaustion of the distribution right.<sup>83</sup> The Supreme Court then stayed the proceedings and referred these questions to the CJEU:

- “(1) Does Article 4 of the [Copyright] Directive govern the answer to the question whether the distribution right of the copyright holder may be exercised with regard to the reproduction of a copyright-protected work which has been sold and delivered within the European Economic Area by or with the consent of the rightholder in the case where that reproduction had subsequently undergone an alteration in respect of its form and is again brought into circulation in that form?
- (2) a) If the answer to Question 1 is in the affirmative, does the fact that there has been an alteration as referred to in Question 1 have any bearing on the answer to the question whether exhaustion within the terms of Article 4(2) of the Copyright Directive is hindered or interrupted?

<sup>81</sup> *Art & Allposters International BV v Stichting Pictoright* (C-419/13) EU:C:2015:27; [2015] Bus. L.R. 268.

<sup>82</sup> *Allposters* EU:C:2015:27; [2015] Bus. L.R. 268 at [23].

<sup>83</sup> *Art & Allposters International BV v Stichting Pictoright* (C-419/13), Opinion of A.G. Cruz Villalón, EU:C:2014:2214 at [21].

- b) If the answer to Question 2(a) is in the affirmative, what criteria should then be applied in order to determine whether an alteration exists in respect of the form of the reproduction which hinders or interrupts exhaustion within the terms of Article 4(2) of the Copyright Directive?
- c) Do those criteria leave room for the criterion developed in Netherlands national law to the effect that there is no longer any question of exhaustion on the sole ground that the reseller has given the reproductions a different form and has disseminated them among the public in that form (judgment of the Hoge Raad of 19 January 1979 in *Poortvliet*, NJ 1979/412)?”

The court did not delve into a deeper examination of the possibility of digital copyright exhaustion in this relatively short judgment of 50 paragraphs, as was done (or attempted) in the *UsedSoft* judgment. It mostly stuck to a grammatical interpretation of provisions, Recitals and agreed statements, as can be seen from expressions such as “[t]aking the wording of that article [art.4(2) of the Copyright Directive] as a basis”.<sup>84</sup> In regard to the first issue raised by the parties, whether the distribution right refers to the tangible object or the author’s own intellectual creation, the court stated that art.4(2) refers to the first sale or other transfer of ownership of “that object”, as follows from the wording of the provision. The court found support for this rather hasty conclusion in the wording of Recital 28 of the Copyright Directive and the 1996 Agreed Statement of the WIPO Copyright Treaty concerning arts 6 and 7, stating that the terms “copy” and “original and copy” refer to fixed copies that can be put into circulation as tangible objects.<sup>85</sup> The *Allposters* ruling thus prevents the possibility of transferring ownership of digital content falling under the Copyright Directive, such as e-books, digital music files, videos and even video games, without the consent of the copyright holder, making a second-hand market for it almost impossible in practice, since copyright holders will be unwilling to give consent in fear of losing revenues. As is reasonably clear from the wording of the *Allposters* judgment itself, the court did not even attempt a substantive analysis for or against digital copyright exhaustion of such digital content. Rather, it stubbornly stuck to the wording of the Recitals of the 2001 Copyright Directive and the Agreed Statements of the 1996 WIPO

Copyright Treaty. The wording is of course the starting point of any interpretation; however, the interpretation should then go beyond grammatical inspection. Yet, not a word was “wasted” on possible arguments in favour of the online-offline equivalence principle<sup>86</sup> or the technological developments and the changed circumstances of everyday life since 1996 and 2001 respectively, possibly making the intentions of the legislators irrelevant today. The political agenda of the CJEU in *UsedSoft* is nowhere to be seen in *Allposters*. Furthermore, if after the *UsedSoft* judgment there was legal uncertainty on how that ruling applies to types of digital content other than software, the question being raised now is, how can the *Allposters* case, establishing an “inherent tie”<sup>87</sup> between exhaustion and the physical medium of the artistic work, influence the established digital exhaustion for downloaded software in *UsedSoft*? In *Allposters* the CJEU ruled that the distribution right in art.4(2) of the Copyright Directive does not apply in a situation where a reproduction of a protected work has undergone an alteration of its medium so that a new object came to exist, such as the transfer of a reproduction from a paper poster on to a canvas, which is then placed on the market in its new form.

### Conclusion—a reflection on German and CJEU case law on digital copyright exhaustion after *Usedsoft*

There was an agenda behind the *UsedSoft* judgment of the CJEU, which they did not even attempt to hide. The CJEU, at least in July of 2012, wanted to create digital exhaustion of copyright in regard to software or even beyond. This can be seen from the argumentation of the decision, stretching the provisions of the Software Directive to some extent; some might see this as simply interpreting the Directive in a teleological way, but the interpretation certainly goes beyond the well-established grammatical and historical interpretation. The CJEU interpreted a “sale” from art.4(2) of the Software Directive in an EU-autonomous way, which it did in accordance with the primary objective of EU integration from the Treaty on the Functioning of the EU—the free movement of goods and services. Since principles of copyright law may take on characteristics unknown to national copyright laws, the EU has the right to autonomously interpret certain legal principles and concepts in order to foster EU integration. In *UsedSoft* the CJEU defined a sale as 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. It identified two key attributes of a sale or other transfers of ownership: the permanence of such a transfer and appropriate

<sup>84</sup> *Allposters* EU:C:2015:27; [2015] Bus. L.R. 268 at [31].

<sup>85</sup> *Allposters* EU:C:2015:27; [2015] Bus. L.R. 268 at [35], [40].

<sup>86</sup> For a thorough examination of the online-offline equivalence principle see Schellekens, “What Holds Off-Line, Also Holds On-Line?” in *Starting Points of ICT Regulation: Deconstructing Prevalent Policy One-Liners* (2006); also Andrew Nicholson, “Old habits die hard?: *UsedSoft* v *Oracle*” (October 7, 2013), SCRIPTed, <http://script-ed.org/?p=1167> [Accessed April 20, 2015].

<sup>87</sup> “Exhaustion of rights (first sale doctrine): what are the broader implications of the CJEU’s ruling in *Art & Allposters*?” (January 30, 2015), IP Kat blog, <http://ipkitten.blogspot.co.uk/2015/01/exhaustion-of-rights-first-sale.html> [Accessed April 20, 2015].

remuneration obtained by the right holder, usually for an upfront fee. The CJEU also emphasised the “indivisible whole” of downloads and licences, since without the licence the download of the software would be pointless, concluding that a download of software with a perpetual licence for an upfront fee can amount to a sale, even though the licence agreement claims that there has been no transfer of ownership. The CJEU then interpreted the “lawful acquirer” in art.5(1) of the Software Directive, a provision not found in the Copyright Directive, as being entitled to make any reproduction necessary for use of the software according to its intended purpose. Here the court openly ignored the opening words of the article on exceptions and restrictions of copyright, “in the absence of specific contractual obligations”. Even in the case of such contractual obligations, because a sale has *in fact* occurred, the purchaser of the software is a lawful acquirer and she is entitled to make reproductions of the software. With this the CJEU situated exhaustion a bit closer to the reproduction right, at least closer than ever before. The CJEU also went clearly beyond the traditional (historical and grammatical) interpretation that for exhaustion to occur a physical medium is required, as stated in the Agreed Statements to arts 6 and 7 of the WIPO Copyright Treaty and Recital 28 of the Copyright Directive.

Despite this obvious agenda to bring digital exhaustion to life (at least concerning software), German courts only reluctantly followed the authoritative lead of the CJEU. Because EU law is above national law and must be applied in a uniform manner, making CJEU judgments binding in all Member States, the BGH needed to obey and implement the instructions of the CJEU in its national *UsedSoft* judgment.<sup>88</sup> However, the BGH interpreted the instructions of the CJEU in *UsedSoft* in a rather reluctant fashion, issuing further instructions of their own to the lower German courts on how to interpret the judgment. Most importantly, the BGH concluded that the party claiming exhaustion of copyright has occurred is the one bearing the burden of proof that the requirements for exhaustion stated in the BGH judgment are met. Proving, for example, that the original purchaser’s copy of the software has been made unusable will be a tough task for *UsedSoft* and other similar businesses. The BGH did not give any example of what would count as such proof, stating only that notary attestations as used up to now by *UsedSoft* do not suffice. The BGH also did not allow for the possibility of licences, which are not in themselves perpetual but which are worthless after they expire (e.g. which happens often precisely with software). Moreover, since these instructions given by the BGH remain very abstract, it will fall upon the lower German courts to interpret them, which can lead to divergent solutions, and, depending on what is accepted as actual proof, to the granting of different levels of copyright protection and exceptions from it.

However, looking at German case law before and after the BGH and CJEU issued their *UsedSoft* judgments, the outcome of the proceedings concerning digital exhaustion seems relatively consistent and to lead to the same result, which can be summed up as “German courts do not want digital copyright exhaustion.” In regard to software, the Regional Court in Hamburg in the *SAP* decision concluded that exhaustion of copyright had occurred, even though the software was downloaded with a licence that restricted its resale. The Hamburg court decided that such a clause in the licence agreement is not in accordance with *UsedSoft*, which generally permitted the trade in used software, otherwise giving no substantive arguments in favour of digital exhaustion. The attitude of German courts towards digital exhaustion can be better seen in decisions in cases that do not concern software—video games, e-books and audio books. The decision that the resale of digital video games can be prohibited was reached before as well as after the *UsedSoft* judgment. In the influential *Half-Life2* pre-*UsedSoft* judgment, which even now remains a key judgment concerning (digital) video games, the BGH decided that a de facto restriction of resale was permitted, because the restriction in the EULA only applied to the transfer of the user account, without which the game (issued on a physical DVD) could not be played. The BGH concluded that while the doctrine of exhaustion limits the right holders’ powers in regard to a DVD, it does not require them to design their business in a way that facilitates the sale of used games. In a very similar case between the same parties after *UsedSoft* (the *Valve* case), the District Court of Berlin found the case against Valve yet again to be unfounded, following the reasoning of the BGH in *Half-Life2* in many instances, although somewhat adjusting its reasoning so as to dismiss the possibility of the relevance and applicability of the *UsedSoft* judgment. The Berlin court acknowledged the *UsedSoft* decision but concluded for a number of reasons that the situation in that case was not comparable to the one in *UsedSoft*. In the key part of the judgment for this article, the court not so subtly hinted that the *UsedSoft* judgment does not and cannot apply to video games at all, since they fundamentally differ from “mere” software owing to their audiovisual and cinematographic content, thus falling completely under the Copyright Directive. If such reasoning were not to be accepted, the court offered additional arguments why the resale of video games may be prohibited. First, according to *Half-Life 2* BGH judgment, Recitals of the Copyright Directive and Agreed Statements of the WIPO Copyright Treaty, a physical copy of the work is required in order for exhaustion to apply. Secondly, no sale occurred in this case, only communication to the public, which does not lead to exhaustion. And thirdly, because in this case the software was independent of the user’s computer (there was no download), there was no indivisible whole between the download and the licence (along with the

<sup>88</sup> “Your questions about: the Court of Justice of the European Union, the EFTA Court, the European Court of Human Rights, the International Court of Justice, the International Criminal Court”, [http://curia.europa.eu/jcms/upload/docs/application/pdf/2012-05/cjuecoursinternationales\\_en.pdf](http://curia.europa.eu/jcms/upload/docs/application/pdf/2012-05/cjuecoursinternationales_en.pdf) [Accessed April 20, 2015].

maintenance) agreement, hence, there was no exhaustion. It seems as if the Berlin court made sure that *UsedSoft* could not apply to the *Valve* case (and video games in general), almost in a cascading fashion.

Something similar happened in the e-books and audio books cases. Decisions with the same result, namely that the resale of e-books and audio books can be forbidden, were reached in judgments before and after *UsedSoft*. In the pre-*UsedSoft* case the Higher Regional Court in Stuttgart quickly concluded that the Copyright Directive requires physical embodiment of a work for exhaustion to apply, again relying on the *Half-Life 2* BGH decision. In the post-*UsedSoft* case concerning audio books and e-books, the Higher Regional Court in Hamm leaned heavily on the reasoning of the Stuttgart court, at least on the part of its reasoning that relied on legislative history in order to justify its decision—that exhaustion requires physical embodiment and where there is no such embodiment only communication to the public occurs. Moreover, the court quickly rejected the applicability or relevance of *UsedSoft*, since in line with the *lex specialis* status of the Software Directive it has no bearing on cases falling under the Copyright Directive. The Hamm court concluded that given the wording and legislative history of both the German as well as the European legislator, they clearly did not intend for exhaustion to apply to digital files.

Alongside the German post-*UsedSoft* case law, subsequent or pending CJEU case law does not seem to be too inclined towards digital exhaustion either, at least in regard to digital content other than software. The *Nintendo* decision concluded that the special nature of the Software Directive means that its provisions take precedence over those in the Copyright Directive; however, only in the case where the subject-matter falls *entirely* within the scope of the Software Directive. Video games, as a complex product (containing audiovisual and other cinematographic elements) thus cannot be considered in the light of specific exceptions present in the Software but not the Copyright Directive, as was done in *UsedSoft*. Even more telling is the *Allposters* ruling. The CJEU, *inter alia*, concluded that exhaustion of the distribution right in the Copyright Directive applies only to works with physical embodiment. The *Allposters* judgment, one of the most highly anticipated CJEU copyright cases at the moment, resulted in a relatively short and uninspired ruling, stubbornly sticking to a simple grammatical inspection of art.4(2) and Recital 28 of the Copyright Directive and the Agreed Statements of the WIPO Copyright Treaty concerning arts 6 and 7. Based on the wording of these legal acts, the CJEU interpreted the law-makers' intentions of the time, 2001 and 1996 respectively, as not wanting or leaving any room for digital copyright exhaustion for works regulated by the Copyright Directive. Not a word was wasted on possible arguments in favour of the online-offline equivalence principle or the technological developments

and the changed circumstances of everyday life since 1996 and 2001, possibly making the intentions of the legislators irrelevant today.

The line of reasoning that can be found all through these cases is the well-known wording of Recitals and Agreed Statements of Directives and international treaties requiring physical embodiment for distribution and exhaustion to occur. Another line of reasoning is the seemingly clear-cut relationship between the Software and the Copyright Directives, a “trap” that the CJEU to some extent dug for itself in its *UsedSoft* judgment—that the Software Directive as *lex specialis* has no influence on the interpretation of the Copyright Directive. This type of reasoning, leaning primarily on traditional historical, grammatical and also systematical interpretation principles, is of course valid and should be taken into account. However, in such a complex, politically and economically important issue, with obvious impact on the large economic markets involved, a deeper and broader analysis of relevant factors should be made. Arguments in favour of exhaustion in the digital domain should be examined as well, despite the worries of many that the economic loss will be too great if digital exhaustion becomes possible. From the above German case law it seems rather obvious that German courts are favouring the interests of the copyright holder above those of the users, which is actually in line with many Recitals of the Copyright Directive. Furthermore, courts' arguments for or against digital exhaustion should be based more on theoretical analyses of legal concepts such as a sale, the online-offline equivalence principle, a more sensible distinction between the distribution right and communication to the public, or downloaded software versus software as a service. Many high quality papers dealing with these matters have already been written. However, German judgments have not touched on most of these topics. On the other hand, not even the CJEU has attempted to clarify the very important and troublesome relationship between distribution and communication to the public—does everything that happens via the internet really fall under communication to the public, which does not lead to exhaustion? Why should it? There are valid reasons why digital exhaustion should not occur in relation to digital files. It is very easy to make innumerable copies of digital files and retain them after resale, whereas there is no easy way to keep track of them. In addition, digital files (almost) do not lose quality with use and transfer. Nevertheless, in order to make an informed decision, one way or other, a more comprehensive examination of all the relevant factors involved needs to be performed by the courts dealing with these cases. Although the CJEU agenda, so obvious in *UsedSoft*, seems to have more or less died off in the two years that have passed, at least when looking at the case law examined in this article, there is no proper agreement on the matter between Member States. In a

recent Dutch case, the *Tom Kabinet* case,<sup>89</sup> the Amsterdam District Court (Rechtbank Amsterdam) in preliminary relief procedure (*kort geding*) decided in favour of Tom Kabinet, an internet portal in the business of reselling e-books. The Amsterdam court denied the sought injunction of shutting down the website, stating that while it is unclear whether or not the internet site infringes copyright when considering the case law of the CJEU, closing down the site immediately would be a step too far. The court also stated that Tom Kabinet's operation

cannot be equated with pirate websites. It concluded that it cannot be excluded that the same rules apply to e-books as to paper books and that the CJEU should give a more definite answer to the matter.<sup>90</sup> With two references for a preliminary ruling already pending before the CJEU, and another one possibly on the way (the *Tom Kabinet* case), the CJEU will finally have to directly answer the question of whether we will allow for the resale of digital files beyond software or not.

<sup>89</sup> *Tom Kabinet* NL:RBAMS:2014:4360, zaaknummer: C/13/567567 / KG ZA 14-795 SP/MV, 21.07.2014.

<sup>90</sup> Loek Essers, "Dutch courts lets ebook reseller stay online: Dutch publishers wanted the site taken offline for copyright infringement" (July 12, 2014), <http://news.techworld.com/applications/3531843/dutch-courts-lets-ebook-reseller-stay-online/> [Accessed April 20, 2015].