Exhaustion and Software Resale Rights in Light of Recent EU Case Law

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Introduction

On July 3, 2012, the Court of Justice of the European Union (CJEU) handed down its decision on *UsedSoft GmbH v. Oracle Int'l Corp.* ("*UsedSoft*"), ruling on the then-undecided copyright distribution issue of reselling copies of computer programs downloaded from the Internet without the rightholders' consent.

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I. The Legal Framework

Pursuant to Art. 4(2) of Directive 2009/24/EC,[1] "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."

In light of this provision, which established the principle of EU-wide exhaustion of the right to distribute computer program copies, and what is accepted in legal doctrine with regard to the right to distribute works,[2] it is unquestionable that a computer program copyright owner cannot oppose the resale of a program copy manufactured in any media format (e.g., CD-ROM, DVD) and sold in the European Union by himself or with his consent.

But, does the above provision also apply to permanent copies of a computer program that have been downloaded via the Internet and stored on a material medium by virtue of the buyer's online purchase?

Three issues drive this inquiry. First, circulating a work through digital networks does not fall within the distribution concept of Art. 4(1)

1. Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009, on the legal protection of computer programs (codified version) (OJ L 111/16, 05.05.2009).

2. According to the dominant view, the terms "original" and "copy" used in Art. 4 of Directive 2001/29/EC (distribution right) refer exclusively to works that have been incorporated into permanent material media and can circulate as tangible goods. For more about the right of distribution of the original or the copies of a work in light of Directive 2001/29/EC, *see* Anna Despotidou, *The Economic Rights of the Author Pursuant to Art. 3(1) of Law 2121/1993*, INFO. SOCIETY AND COPYRIGHT, THE GREEK REGULATION 11, 47-50 (Michail-Theodoros Marinos (ed.) 2003), with further references (in Greek); Anthoula Papadopoulou, *The Intellectual Creation in the Place and Time of the Internet—The Directive 2001/29/EU for the Information Society*, 12 BUS. & COMPANY L. 1212, 1220 (2002) (in Greek); Dionysia Kallinikou, Copyright and the Internet Directive 2001/29/EC, 61–63 (2001) (in Greek); Gerald Spindler, *Europäisches Urheberrecht in der Informationsgesellschaft*, GRUR 2002, 105, 109; Jörg Reinbothe, *Die EG-Richtlinie zum Urheberrecht in der Informationsgesellschaft*, GRUR INT. 2001, 733, 737; Michail-Theodoros Marinos, *Absolute and exclusive powers as a subject of harmonization pursuant to Directive 2001/29/EC*, INFORMATION SOCIETY AND COPYRIGHT, THE NEW COMMUNITY REGULATION 29, 51–52 (Michail-Theodoros Marinos (ed.) 2001) (in Greek). This opinion could, in principle, be considered to cover the term "copy" of Art. 4 of Directive 2009/24/EC (distribution right), because, according to the case law of the CJEU, the terms used in Directives 2009/24/EC and 2001/29/EC must, in principle, have the same meaning. *See* Cases C-403/08 and C-429/08, Football Ass'n Premier League Ltd. v. QC Leisure (C-403/08) and Karen Murphy v. Media Prot. Servs. Ltd. (C-429/08) (2011) ECR I-9083, *available at* http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:62008CJ0403:EN:HTML, paras 187-188.

of Directive 2009/24/EC, according to the legal literature.[3] Second, the contract terms accompanying a downloaded computer program copy describe the purchase as a license agreement, not a sale, and Art. 4(2) of Directive 2009/24/EC presupposes the sale of a copy of a computer program. Third, the online sale of a work constitutes a service,[4] and the question of exhaustion of rights does not arise, according to the recitals in the preambles to Directives 2001/29/EC and 96/9/EC in the case of services and online services, in particular.[5] In *UsedSoft*, the CJEU answered the above question.[6]

II. The Facts

The CJEU based its decision on the following facts: Oracle developed and distributed to clients via Internet downloads, computer programs functioning as "client-server software." The customer downloaded a copy of the program directly onto his computer from Oracle's website. The accompanying license agreement included the right to store permanently a copy of the program on a server and to allow a specific number of users to access the server copy and install it on their workstation computers. The license agreement granted the customer a non-transferable and exclusive user right for an unlimited

3. *See* Despotidou, *supra* note 2, at 49; Marinos, *supra* note 2, at 52; Michael Hart, *The Copyright in the Information Society Directive: An Overview*, 24 EIPR 58, 59 (2002); Papadopoulou, *supra* note 2.

4. *See* recital 18 in the preamble to Directive 2000/31/EC of the European Parliament and the Council of 8 June 2000, on certain legal aspects of information society services, in particular, electronic commerce, in the Internal Market ("Directive on electronic commerce") (OJ L 178/1, 17.07.2000).

5. According to the recital 33 in the preamble to Directive 96/9/EEC:

> Whereas the question of exhaustion of the right of distribution does not arise in the case of on-line databases, which come within the field of provision of services; whereas this also applies with regard to a material copy of such a database made by the user of such a service with the consent of the rightholder; whereas, unlike CD-ROM or CD-i, where the intellectual property is incorporated in a material medium, namely an item of goods, every on-line service is in fact an act which will have to be subject to authorization where the copyright so provides.

Furthermore, according to the recital 29 in the preamble to Directive 2001/29/EC:

> The question of exhaustion does not arise in the case of services and on-line services in particular. This also applies with regard to a material copy of a work or other subject-matter made by a user of such a service with the consent of the rightholder. Therefore, the same applies to rental and lending of the original and copies of works or other subject-matter which are services by nature. Unlike CD-ROM or CD-i, where the intellectual property is incorporated in a material medium, namely an item of goods, every on-line service is in fact an act which should be subject to authorisation where the copyright or related right so provides.

6. Case C-128/11, UsedSoft GmbH v. Oracle Int'l Corp. (July 3, 2012), *available at* http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:62011CJ0128:EN:HTML.

period. A maintenance agreement provided for downloads from Oracle's website of software updates ("updates") and programs for correcting faults ("patches").

UsedSoft marketed and resold licenses acquired from Oracle's customers. UsedSoft's customers who did not yet possess the software downloaded it directly from Oracle's website after acquiring a "used" license. Customers who already held licenses for the software but purchased additional licenses to accommodate additional users were induced by UsedSoft to install the program on those users' workstation computers.

Oracle brought proceedings against UsedSoft in the German courts, seeking an order instructing UsedSoft to cease those practices. The Bundesgerichtshof (Federal Court of Justice, Germany), which had to rule on the dispute as a court of final instance, referred some questions to the CJEU regarding the interpretation of Arts. 4(2) and 5(1) of Directive 2009/24/EC.[7]

III. The CJEU's Findings

To settle the dispute, the CJEU clarified that, pursuant to Art. 4(2) of Directive 2009/24/EC, a "sale" is an agreement by which a person, in return for payment, transfers to another person his rights of ownership in an item of tangible or intangible property belonging to him.[8] Based on this definition, it judged that the application of the above provision must involve a transfer of the right of ownership in a specific copy of a computer program.[9] Such a transfer also takes place, according to the CJEU, when the computer program's manufacturer executes a user license agreement with its client relating to the right to use a copy of the program concerned. The client then downloads the program for free from the manufacturer's website and retains it for an unlimited period in return for a fee payment corresponding to the copy's economic value.[10]

Moreover, the CJEU said that when applying Art. 4(2) of Directive 2009/24/EC, it makes no difference whether a copy of a computer program was made available by means of a material medium, such as a CD-ROM or DVD, or by means of a download from the right-

7. *Id*. ¶¶ 20–34.
8. *Id*. ¶ 42.
9. *Id*.
10. *Id*., ¶¶ 43–46. *See also* Opinion of Advocate General Yves Bot, *available at* http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:62011CC0128:EN:HTML, points 56–60.

sholder's website.[11] The CJEU justified this opinion on seven arguments. Firstly, based on Art. 1(2)(a) of Directive 2001/29/EC, the provisions of Directive 2009/24/EC constitute a *lex specialis* in relation to the provisions of Directive 2001/29/EC. Therefore, even if the digital transmission of a computer program copy falls within the scope of "communication to the public," as defined in Art. 3(1) of Directive 2001/29/EC, so that there is no exhaustion of the right to distribute the copy concerned under Art. 3(3) of Directive 2001/29/EC, this cannot affect the scope of Art. 4(2) of Directive 2009/24/EC.[12]

Secondly, it follows from Art. 6(1) of the WIPO Copyright Treaty (WCT) that Directives 2001/29/EC and 2009/24/EC, to the greatest extent possible, must be interpreted to mean that the transfer of the right of ownership of a computer program copy always leads to the application of Art. 4(2) of Directive 2009/24/EC.[13]

Thirdly, Art. 4(2) of Directive 2009/24/EC makes no distinction with respect to the tangible or intangible form of the copy in question.[14]

Fourthly, according to Art. 1(2) of Directive 2009/24/EC, "protection in accordance with this Directive shall apply to the expression in any form of a computer program."[15]

Fifthly, Recital 7 in the preamble to Directive 2009/24/EC specifies that the "computer programs" the Directive aims to protect "include programs in any form, including those that are incorporated into hardware."[16]

Sixthly, from an economic point of view, the sale of a computer program on CD-ROM or DVD and the sale of a program downloaded via the Internet are similar.[17]

Seventhly, not applying the principle of exhaustion of the distribution right under Art. 4(2) of Directive 2009/24/EC in relation to a computer program copy that has been downloaded via the Internet would allow the copyright holder to control the resale of such a copy. Moreover, the copyright holder could demand further remuneration for each new sale, even though the first sale of the copy had already enabled the copyright holder to obtain appropriate remuneration. Restricting the

11. *UsedSoft GmbH*, ¶ 47. *See also* Opinion of Advocate General Yves Bot, point 84.
12. *UsedSoft GmbH*, ¶ 51.
13. *Id.* ¶ 52. *See also* Opinion of Advocate General Yves Bot, point 73.
14. *UsedSoft GmbH*, ¶ 55.
15. *Id.* ¶ 57.
16. *Id.*
17. *Id.* ¶ 61.

resale of such computer program copies would go beyond what is necessary to safeguard the specific subject matter of the copyright.[18]

Furthermore, as the CJEU highlighted after putting forward the above arguments, the application of the exhaustion rule under Art. 4(2) of Directive 2009/24/EC to a computer program copy that was downloaded from the Internet is not affected by the fact that the seller and the first user of that copy also formed a contract for services (i.e., a maintenance agreement). According to the CJEU, the functionalities corrected, altered, or added based on such an agreement form an integral part of the copy originally downloaded, and they can be used by the acquirer of the copy for an unlimited period, even in the event that the acquirer subsequently decides not to renew the maintenance agreement. The user of such a copy is a proprietor not only of the copy concerned, but also of its functionalities. Thus, even if the computer program copy that the user resells is not identified with the one that was downloaded to his computer, this does not affect the legality of the above resale in light of Art. 4(2) of Directive 2009/24/EC.[19]

In addition, one of the legal consequences of the exhaustion doctrine under Art. 4(2) of Directive 2009/24/EC is that the user of a computer program copy downloaded from the Internet may legally resell that copy to another. Therefore, under *UsedSoft*, the second acquirer, and any subsequent acquirer, of that copy are "lawful acquirers" of it within the meaning of Art. 5(1) of Directive 2009/24/EC.[20] Also, if the second acquirer obtained the copy concerned via Internet download, such a download must be regarded as a reproduction of the computer program that is necessary for the new acquirer to use the program in accordance with its intended purpose.[21]

However, these legal consequences do not permit the acquirer to resell just the right to use the copy to a number of users determined by him[22] without the license. In order to avoid infringing the exclusive right of reproduction held by the author of a computer program as delineated in Art. 4(1)(a) of Directive 2009/24/EC, the CJEU stressed that after reselling a computer program copy first obtained via Internet download and installed on the first acquirer's server, the first acquirer

18. *Id*. ¶ 63. *See also* Opinion of Advocate General Yves Bot, points 78–83.
19. *UsedSoft GmbH*, ¶¶ 64–68.
20. *Id*. ¶ 80. *Contra* Opinion of Advocate General Yves Bot, points 95–99.
21. *UsedSoft GmbH*, ¶ 81. *Contra* Opinion of Advocate General Yves Bot, points 95–99 (does not accept any extension of the principle of exhaustion to the right of reproduction of a copy of a computer program).
22. *UsedSoft GmbH*, ¶ 69.

must no longer be able to use that copy.[23] Moreover, the CJEU entitled the computer program manufacturer to render unusable by all technical means at its disposal the copy obtained via Internet download but still in the reseller's hands.[24]

IV. Comment

UsedSoft, a leading decision, gives rise to new data regarding the right of distribution of a computer program copy and the issue of exhaustion of that right. Furthermore, it is a decision that is expected to affect radically the functioning of the EU computer program market.

A. UsedSoft is a Landmark: The CJEU Rules the Resale of Used Software Licenses Legal

UsedSoft revises the issue of distinguishing between the right to distribute the original or copies of a work and the author's right to make his work available to the public in a specific way, which is a specific expression of the right to communicate a work to the public.[25] Heretofore, the right to distribute an original work or its copies did not include the digital transmission of that work.[26] Nonetheless, according to *UsedSoft* and Advocate General Yves Bot, a transfer of ownership changes, in light of Art. 6(1) of the WIPO Copyright Treaty (WCT),[27] an "act of communication to the public" within the meaning of Art. 3(1) of Directive 2001/29/EC into an act of distribution within the meaning of Art. 4 of Directive 2009/24/EC.[28] Thus, according to the CJEU, the online transmission of a work falls within the distribution right, provided that the transmission results in the transfer of the right of ownership of a permanent copy of the work that was created with the copyright holder's consent on a data carrier by the receiver of the transmission.

At this point, the CJEU's effort to extend the scope of the right to distribute a work and to subsume an additional form of exercise of

23. *Id*. ¶ 70. Thus, the first acquirer is not authorized to divide the license and resell only the user right for the computer program concerned corresponding to a number of users determined by him (*Id*. ¶ 69).

24. *Id*. ¶ 87.

25. *See* Marinos, *supra* note 2, at 44.

26. *See supra* note 3.

27. As already acknowledged by the CJEU in a previous decision, the provisions of Directives in European copyright law must be interpreted, to the extent possible, in the light of the rules of International Agreements reached by the European Community (now EU). *See* Case C-456/06, Peek & Cloppenburg KG v. Cassina SpA. (2008) ECR -2731, ¶ 30.

28. *UsedSoft GmbH*, ¶ 52; Opinion of Advocate General Yves Bot, point 73.

the author's right to the rule of exhaustion of rights, which expresses the fundamental principle of free movement of goods in EU copyright law, is particularly evident. Indeed, if the CJEU regarded the above digital transmission as one form of exercising the right of communicating a work to the public and, more specifically, the right of the author to make his work available to the public in a specific way (Art. 3(1) of Directive 2001/29/EC), there would not be room for applying the rule of exhaustion of rights since the above right is explicitly excluded from the scope of that rule (Art. 3(3) of Directive 2001/29/EC). Nonetheless, if the above digital transmission is regarded as a form of exercise of the distribution right for a work (Art. 4(1) of Directive 2001/29/EC), it is possible to apply Art. 4(2) of Directive 2001/29/EC (exhaustion of rights rule covering works other than computer program copies and copies of databases) to the above transmission.

Moreover, based on the above decision and regardless of the qualification given by the computer program manufacturer in the relevant contract, the grant of a right to use a copy of the program for an unlimited period and in return for payment of a fee corresponding to the economic value of the program copy is equal to a sale of the copy within the meaning of Art. 4(2) of Directive 2009/24/EC. As a result, a computer program copy made available to a specific user based on a "shrink-wrap" license or a "click-wrap" license—or any license with terms that were not negotiated by the contracting parties—invalidates the application of the provision of Art. 4(2) of Directive 2009/24/EC unless it is found that a right was granted to use the copy for an unlimited period in return for fee payment corresponding to its economic value. The CJEU's position must be praised because, if the application of Art. 4(2) of Directive 2009/24/EC were to depend on the contractual language granting a right to use a computer program copy, the risk of circumvention of the above provision would be quite high, as pointed out by Advocate General Yves Bot.[29]

Finally, in light of the above decision, the rule of exhaustion of the distribution right for a computer program also applies to copies of computer programs installed on data carriers (e.g., on a computer's hard disk) via an online service by the service user, if the copyright holder provided a right of use of the copy concerned for an unlimited period in return for a fee corresponding to the economic value of the copy concerned. Therefore, according to the CJEU's view, there must

29. *See* Opinion of Advocate General Yves Bot, point 59. *Cf.* even prior to *UsedSoft*, Christopher Stothers, PARALLEL TRADE IN EUROPE, INTELLECTUAL PROPERTY, COMPETITION AND REGULATORY LAW 51 (2007).

be a distinction between an online sale—which, according to recital 18 in the preamble to Directive 2000/31/EC, constitutes an information society service and is not subject to the rule of exhaustion of rights—and a permanent copy of a computer program that is created on a specific material medium under an online sale by the acquirer and with the consent of the copyright holder. The latter should be subject to the rule established in Art. 4(2) of Directive 2009/24/EC. The CJEU clarifies that the downloading necessary for reselling such a copy does not breach the exclusive right of reproduction of a computer program (Art. 4(1)(a) of Directive 2009/24/EC). Thus, the rightholder cannot prohibit the resale because the resale constitutes a reproduction, which is necessary for the lawful acquirer to use the computer program in accordance with its intended purpose. On the other hand, in order to avoid infringing the above right, the user who resold such a copy must no longer have the ability to use it and the rightholder may ensure by all technical means at its disposal that the copy concerned is made unusable.

The CJEU's approach described above seems correct from the perspective of what is generally accepted regarding the distinction between products and services. Indeed, a permanent copy of a computer program created on a material medium via an online sale by the acquirer and with the consent of the rightholder does not have all the characteristics of a service.[30] Contrary to a service, whose use by its recipient requires the involvement of its provider, the copy concerned may be used by its acquirer without the seller's involvement. Moreover, the creation and use of the copy concerned do not happen concurrently, as in the case of the provision and use of a service. Nevertheless, the above approach of the CJEU clashes with the view expressed by the European Commission within the framework of Directives 96/9/EEC and 2001/29/EC on permanent database copies and permanent copies of any other works created on material media by users of online services with the rightholders' consent. More specifically, pursuant to recital 33 in the preamble to Directive 96/9/EEC and recital 29 in the preamble to Directive 2001/29/EC,[31] the exhaustion of rights rules of those Directives (Art. 5(c), second sentence of Directive 96/9/EEC and Art. 4(2) of Directive 2001/29/EC) are not applied to such copies. Finally, regarding the CJEU's clarification of the legality of the reproduction (downloading) necessary for the resale of a perma-

30. For the characteristics of a service, according to the economic theory, *see* Raymond P. Fisk, Stephen W. Brown & Mary Jo Bitner, *Tracking the Evolution of the Services Marketing Literature*, 69 J. OF RETAILING 61 (1993).

31. *See* for the text of the above recitals, *supra* note 6.

nent copy of a computer program created on a material medium via an online sale by the acquirer and with the rightholder's consent, this was necessary to guarantee, from a technical point of view, the effectiveness of Art. 4(2) of Directive 2009/24/EC.

B. Consequences of the UsedSoft Decision for the EU Computer Program Market

1. INTRODUCTION

The *UsedSoft* decision is expected to have a great impact on the EU computer program market. The decision's main and direct consequence is that it provides users of online services with an option, the legality of which has been controversial to date (i.e., the possibility of users reselling permanent copies of computer programs that were created on material media by the users in question with the rightholders' consent). Still, the benefits of the decision for computer program users likely will not apply to computer programs that will be released in the near future. This is because the decision is expected to lead computer program manufacturers to revise established methods as well as adopt new methods of software distribution with a view to reducing radically the computer program copies covered by the rule of Art. 4(2) of Directive 2009/24/EC.

2. *USEDSOFT* CONSEQUENCES FOR USERS OF COMPUTER PROGRAM COPIES

Regarding users of computer program copies, *UsedSoft* makes it clear that a computer program user who created a copy of the program within the framework of an online sale with the consent of the rightholder has the same rights as the user who acquired a copy of the same program on a material medium (e.g., CD-ROM, DVD). That means that the first of the above users is able to resell the copy he acquired without the consent of the rightholder being necessary for the resale. This also paves the way for intra-brand market competition[32] between computer program copies that are made available online through digital networks. More specifically, *UsedSoft* "abolishes" rightholders' monopolies on digital transmissions that create permanent copies of computer programs on material media because such copies may now be resold at lower prices than the rightholders' prices. Furthermore, there is no longer any doubt about the possibility of reselling media holding permanent copies of computer programs that were created

32. In a copyright context, intra-brand competition has the meaning of competition between copies of the same copyrighted product. GLOSSARY OF TERMS USED IN EU COMPETITION POLICY (2002).

by users of online services with the consent of the rightholders. Pursuant to *UsedSoft*, reselling such copies is legal, so the resale of media holding such copies should also be considered legal.

3. *USEDSOFT* CONSEQUENCES FOR COMPUTER PROGRAM MANUFACTURERS

On the other hand, regarding computer program manufacturers, *UsedSoft* will likely incentivize them to establish new software distribution methods. In order for manufacturers to deny the benefits accorded by *UsedSoft* to users of computer program copies, it is very likely that they will renounce, to a great extent, the sale and the grant of a right to use a program copy for an unlimited period in return for payment of a fee corresponding to the copy's economic value as software distribution methods. Even if some computer program manufacturers continue to apply the above software distribution methods, it is almost certain that those methods will not be applied on the basis of the current contract terms of the software market. In fact, following *UsedSoft*, computer program manufacturers are expected to use the following software distribution models:

a) Grant of a right to use a computer program copy for a limited period ("subscription-based model"). According to *UsedSoft*, application of the rule in Art. 4(2) of Directive 2009/24/EC requires the grant of a right to use the copy of a computer program for an unlimited period. However, a use right of an extremely long duration (e.g., fifty or seventy years) does not seem to invalidate the application of the above rule since it is obvious that the time restriction aims at circumventing the said rule.
b) Use of the model "Software as a Service (SaaS)" (also known as "on-demand software"). Based on *UsedSoft*, application of the rule in Art. 4(2) of Directive 2009/24/EC requires the transfer of the right of ownership in a copy of a computer program. If the transfer of the ownership right is not ascertainable, the above provision cannot be applied regardless of whether a user gained access to the functions of a computer program with the consent of the rightholder. Therefore, in order to avoid the possibility of applying the above provision to copies of computer programs that are distributed digitally, the solution for the manufacturers of computer programs could be the "Software as a Service (SaaS)" model, which is already being increasingly used.[33]

33. *See* Larry Barret, *SaaS Market Growing by Leaps and Bounds: Gartner*, (July 27, 2012), http://www.datamation.com/entdev/article.php/3895101/SaaS-Market-Growing-by-Leaps-and-Bounds-Gartner.htm; Gartner Newsroom, *Gartner Says World-*

Within the framework of the aforementioned model, the rights to use the applications are not bought, but the user acquires the right to use software by paying a fee, which depends on either the duration of its use (time-based) or on the subscription that the user chose for his access to that software. The user has access through the Internet and a common web browser.[34] It is evident that the "Software as a Service (SaaS)" model does not entail transfer of the right of ownership and, as a result, in light of this method of software distribution, the issue of applying the rule in Art. 4(2) of Directive 2009/24/EC does not arise.

c) Grant of a right to use a computer program copy for an unlimited period to a large number of users ("enterprise/block licensing"). According to *UsedSoft*, the buyer who acquired the right to use the copy of a computer program for an unlimited period and for a determined number of users is not entitled to divide the right of use he acquired by reselling that right to a number of users determined by him. Based on this clarification, it is obvious that the resale of the right to use a permanent copy of a computer program for more users is more difficult than reselling the right to use a permanent copy of the same program for one user. This is because the first resale requires that the acquirer needs a right to use covering the same number of users. Therefore, the grant of rights to use computer program copies for an unlimited period for a large number of users rather than a single user constitutes another option for computer program manufacturers in their attempts to restrict the application of Art. 4(2) of Directive 2009/24/EC.

d) Grant of a right to use a computer program copy for an unlimited period and use of anti-piracy protection technical means ("technical solution"). Following *UsedSoft*, it is almost certain that the use of technical protection means, which will significantly in-

wide Software as a Service Revenue Is Forecastto Grow 21 Percent in 2011 (July 7, 2011), http://www.gartner.com/it/page.jsp?id=1739214&M=6e0e6b7e-2439-4289-b697-863578323245; Tomasz Targosz, *The Economic Perspective: Exhaustion in the Digital Age*, GLOBAL COPYRIGHT: THREE HUNDRED YEARS SINCE THE STATUTE OF ANNE, FROM 1709 TO CYBERSPACE 337, 346 (Lionel Bently & Uma Suthersanen & Torremans Paul eds., 2010).

34. For "Software as a Service (SaaS)" *see* Gerald Blokdijk, SAAS 100 SUCCESS SECRETS—HOW COMPANIES SUCCESSFULLY BUY, MANAGE, HOST AND DELIVER SOFTWARE AS A SERVICE (SAAS) (2008); Melvin B. Greer, Jr., SOFTWARE AS A SERVICE INFLECTION POINT: USING CLOUD COMPUTING TO ACHIEVE BUSINESS AGILITY (2009); Ivanka Menken, SAAS—THE COMPLETE CORNERSTONE GUIDE TO SOFTWARE AS A SERVICE BEST PRACTICES CONCEPTS, TERMS, AND TECHNIQUES FOR SUCCESSFULLY PLANNING, IMPLEMENTING, AND MANAGING SAAS SOLUTIONS (2008).

crease the likeliness that the reseller of a computer program copy acquired via Internet download can no longer use his copy. It is clear in *UsedSoft* that the CJEU favors the use of such technical means by rightholders. Nevertheless, employing anti-piracy protection might result in price increases for the rights to use computer program copies for an unlimited period. Thus, a possible decrease in demand for such rights and a reduction of cases covered by the exhaustion of the distribution right provision under Directive 2009/24/EC could occur.

V. The situation in the United States

In the U.S., the "first sale" doctrine, which is a similar principle to the European exhaustion of rights rule, applies.

According to section 109(a) of the U.S. Copyright Act, Title 17 U.S. Code, "notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. . . ."

Simply put, the "first sale" doctrine can be defined as a legal principle that allows the purchaser of a copy of a protected work to lend, give away, or resell that particular copy without violating the copyright. Copyright owners cannot use their monopolies to control the resale of particular copies of works that they originally sold or to prevent purchasers from selling them to others. The "first sale" doctrine also allows customers to destroy their particular copies or phonorecords and applies to all kinds of works (i.e., music, books, computer programs, etc.).[35]

35. *See generally* Alexis Gonzalez, *Why the Supreme Court Said Yes to the First Sale Doctrine in* Quality King Distribs. Inc. v. L'anza Research Int'l, Inc., 8 U. MIAMI BUS. L. REV. 29 (1999); Bryan P. Stanley, *Preventing the Import of Gray Market Goods in Light of* Quality King Distribs., Inc. v. L'anza Research Int'l, Inc., 38 WASHBURN L.J. 871 (1999); Christopher A. Mohr, *Gray Market Goods and Copyright Law: An End Run Around* K Mart v. Cartier, 45 CATHOLIC U.L. REV. 561 (1996); Christopher Morris, Quality King Distribs. Inc. v. L'anza Research Int'l, 14 BERKELEY TECH. L.J. 65 (1999); Donna K. Hintz, *Battling Gray Market Goods With Copyright Law*, 57 ALB. L. REV. 1187 (1994); Doris R. Perl, *The Use of Copyright Law to Block the Importation of Gray Market Goods: The Black and White of It All*, 23 LOY. L.A.L. REV. 645 (1990); James P. Donohue, *The Use of Copyright Laws to Prevent the Importation of "Genuine Goods,"* 11 N.C.J. INT'L L. & COM. REG. 183 (1986); Jeremy M. Klass, *Competing with Oneself: The U.S. Supreme Court Strikes a Blow Against U.S. Intellectual Property Rights Owners in* Quality King Distribs. Inc. v. L'anza Research Int'l, Inc., 13 TEMP. INT'L & COMP. L.J. 411 (1999); John A. Rothchild, *The Incredible Shrinking First-Sale Rule: Are Software Resale Limits Lawful?*, 57 RUTGERS L. REV. 1 (2004); John C. Cozine, *Fade to Black? The Fate of the Gray Market After* L'anza Research Int'l, Inc. v. Quality King Distribs., Inc., *98 F. 3d 1109 (9th Cir. 1996)*, 66 U. CIN. L.

However, the "first sale" doctrine is subject to some limitations. First, it applies only to copies that were lawfully made. Second, it applies only to particular copies. Therefore, if the customer owns a copy of a work or a phonorecord and reproduces that copy or phonorecord in order to sell it, he infringes the copyright. However, if a copy of a work or phonorecord was "lawfully made" by the customer under the Copyright Act, the person is allowed to sell that reproduced copy or phonorecord under the "first sale" doctrine, as it is not limited to copies made or authorized by the rightholder.[36] This is despite the fact that the "first sale" doctrine applies only to the distribution right and does not apply to the reproduction right or any of the other four rightholders' rights.

The "first sale" doctrine was codified in 1976, "to give effect to the early common law rule against restraints on the alienation of tangible property," as stated in the legislative history of section 109.[37] The congressional reports refer to the ability of the owner of a material copy to dispose of that copy as he sees fit.[38]

The term "first sale" doctrine dates back to 1908 case law[39] in which the doctrine applied to copies that had been sold. Upon codification in the U.S. Copyright Act of 1976, the doctrine applied to any

Rev. 775 (1998); John C. Roa, *Gray Market Goods and the First Sale Doctrine: The Last Nail in the Coffin?*, Quality Kings Distribs., Inc. v. L'anza Research Int'l, Inc. *523 U.S. 135 (1998)*, 20 MISS. C. L. REV. 211 (1999); Joseph J. Basista & Lynda J. Zadra-Symes, *Using U.S. Intellectual Property Rights to Prevent Parallel Imports*, 20 EIPR 219 (1998); Keith Kupferschmid, *Lost in Cyberspace: The Digital Demise of the First-Sale Doctrine*, 16 JOHN MARSHALL J. OF COMPUTER & INFOR. L. 825 (1998); Kristine Boylan, *Life After Quality King: A Proposal for Evaluating Gray Market Activities Under the Fair Use Doctrine*, 27 AIPLA Q.J. 109 (1999); Ruth Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 BOSTON COLLEGE L. REV. 577 (2003); Stephan W. Feingold, *Parallel Importing under the Copyright Act of 1976*, 17 N.Y.U. J. INT'L L. & POL. 113 (1984); Vartan J. Saravia, *Shades of Gray: The Internet Market of Copyrighted Goods And A Call For The Expansion of the First Sale Doctrine*, 15 SW. J. INT'L L. 383 (2009); Victor F. Calaba, *Quibbles 'N Bites: Making a Digital First Sale Doctrine Feasible*, 9 MICH. TELECOMM. TECH. L. REV. 1 (2002); William Richelieu, *Gray Days Ahead?: The Impact of* Quality King Distribs., Inc. v. L'anza Research Int'l, Inc., 27 PEPP. L. REV. 827 (2000).

36. *See* H.R. REP. NO. 94-1476, *reprinted in* 1976 U.S.C.C.A.N. 5693, section 109, at 79.

37. S. REP. NO. 162, 98th Cong., 1st Sess. 4 (1983).

38. *See* PIKE & FISHER, INC. WITH CHRISTOPHER WOLF, THE DIGITAL MILLENNIUM COPYRIGHT ACT: TEXT, HISTORY, AND CASE LAW 606 (Mark E. Smith & Christopher J. Oberst & Daniel J. Gobble eds., 2003).

39. *See* Bobbs-Merrill Co. v. Strauss, 210 U.S. 339 (1908). The U.S. Supreme Court held that the scope of the exclusive right to sell copyrighted works is limited to the first sale of a copyrighted work, and the exclusive right to distribute a work may be used by the holder of the copyright in relation to a particular copy of the work only until the first sale of that particular copy.

lawfully transferred copy, regardless of whether it had been sold. In 1978, the U.S.'s National Commission on New Technical Uses of Copyrighted Works (CONTU) recommended that "computer program" be explicitly referred to in the copyright legislation, and the U.S. Congress adopted this amendment in the Computer Software Copyright Act of 1980.[40] In 1990, Congress again amended section 109 by adopting the Computer Software Rental Amendments Act of 1990. This limited the "first sale" doctrine by stating that a "person in possession of a particular copy of a computer program" is not permitted to transfer that copy "by rental, lease, or lending" for commercial purposes.[41]

In addition to section 109 of the U.S. Copyright Act, section 117 provides for other limitations on the exclusive rights of the copyright owner. Section 117 allows the owner of a computer program copy to make copies for any purpose associated with the use of the copy by the authorized owner. That provision relates to copies that are essential for the utilization of the software or that are solely made for back-up or archive purposes.[42] Section 117 of the U.S. Copyright Act is quite similar to Art. 5(1) of Directive 2009/24/EC. However, there is an essential difference: section 117 of the U.S. Copyright Act can only be invoked by the owner of a copy of software, while Art. 5(1) of Directive 2009/24/EC can be invoked by the lawful acquirer, who may be a purchaser, licensee, renter, or a person authorized to use the program on behalf of one of the aforementioned.

In the United States, a few judgments have been issued on the applicability of the "first sale" doctrine in relation to software licenses. The main question is whether the acquisition of a software license is a sale transaction or merely a license.

In *SoftMan Products Co. v. Adobe Systems Inc.*, the U.S. District Court for the Central District of California held that acquiring an Adobe license should be qualified as a sale transaction, making the software subject to the "first sale" doctrine.[43] The court reasoned that (i) the purchaser paid a single price for unlimited use without obligation

40. *See* Tanya Aplin, *Subject Matter*, in RESEARCH HANDBOOK ON THE FUTURE OF EU COPYRIGHT 49, 75 (Estelle Derclaye ed., 2009).

41. *Id.*

42. *See* Petra Heindl, *A Comparative Analysis of Online Distribution of Software in the United States and Europe: Piracy or Freedom of "First Use"?*, TTLF WORKING PAPER NO. 6, *available at* http://www.law.stanford.edu/program/centers/ttlf/papers/heindl_wp6.pdf, at 8–10.

43. SoftMan Prods. Co. v. Adobe Sys. Inc., 171 F. Supp. 2d 1075 (C.D. Cal. 2001).

to return the software, and (ii) the business environment suggested that Adobe sold its products to those who then resold the products. The court also referred to several earlier judgments, which held that the sale of software is a sale of a good within the meaning of Uniform Commercial Code.[44]

However, in *Davidson & Assocs. v. Internet Gateway, Inc.*,[45] the District Court of Missouri found that "when defendants purchased the games, they bought a license to use the software, but did not buy the software." The court concluded, "Defendants do not produce sufficient evidence demonstrating that title and ownership of the games passed to them. Therefore, the court finds that the first sale doctrine is inapplicable here."

More recently, in *Vernor v. Autodesk, Inc.*,[46] the United States Court of Appeals for the Ninth Circuit held that "a software user is a licensee rather than an owner of a copy where the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions." The same reasoning was subsequently applied in *MDY Indus. v. Blizzard Entm't*.[47]

Accordingly, U.S. courts seem to accept that restrictive end user license agreements may lead to the "first sale" doctrine not being applicable.

Conclusion

In *UsedSoft*, the CJEU made it clear that the distinction between the rights of digital dissemination and the distribution of a computer program copy must be based on the transfer of ownership. *UsedSoft* fur-

44. *Id*. According to the court, "in determining whether a transaction is a sale, a lease, or a license, courts look to the economic realities of the exchange." Judges also cited many cases in which the courts found that the software was actually sold rather than licensed. The court concluded that "the circumstances surrounding the transaction strongly suggest that the transaction is in fact a sale rather than a license." Those circumstances were the facts that the defendant "commonly obtained a single copy of the software, with documentation, for a single price, which was paid at the time of the transaction, and which constituted the entire payment for the 'license'. The 'license' ran for an indefinite term without provisions for renewal." The court said that "in light of these indicia, many courts and commentators conclude that a 'shrink-wrap license' transaction is a sale of goods rather than a license."

45. Davidson & Assocs., Inc. v. Internet Gateway, Inc., 334 F. Supp. 2d 1164 (E.D. Mo. 2004).

46. Vernor v. Autodesk, Inc., 621 F.3d 1102 (9th Cir. 2010).

47. MDY Indus., LLC v. Blizzard Entm't, Inc., 629 F.3d 928 (9th Cir. 2010), *opinion amended and superseded on denial of rehearing*, 2011 WL 538748 (9th Cir. Feb. 17, 2011).

ther clarified that the rule of exhaustion of the distribution right established in Art. 4(2) of Directive 2009/24/EC is applied to every permanent copy of a computer program for which a right to use for an unlimited period was granted either by the rightholder or with the rightholder's consent regardless of whether the copy was distributed on a data carrier (offline) or via Internet download. *UsedSoft* directly benefits users of computer program copies. Yet, in the medium-to-long term, computer program manufacturers will likely try to deny those benefits—they are expected to adopt new software distribution methods or revise existing methods (to the extent that those will continue to be used) with a view to reducing the number of copies of computer programs subject to Art. 4(2) of Directive 2009/24/EC. Finally, contrary to the CJEU, U.S. courts seem to strengthen software vendors' legal position by accepting that restrictive end user license agreements may lead to the "first sale" doctrine not being applicable.