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## OLD HABITS DIE HARD?: *USED SOFT V ORACLE*

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### Abstract

The ownership status of digital content – whether it be music on iTunes or eBooks on Kindles – is increasingly on the general public’s mind. For those in European legal and technical circles, such questions rose to the forefront of consideration in July 2012, when the Grand Chamber of the Court of Justice of the European Union issued its decision on *UsedSoft GmbH v Oracle International Corp*. The decision declared that those who download large-scale, enterprise-wide commercial software in fact own it, and thus its author’s distribution right under the Software Directive is “exhausted”. Many commentators welcomed the decision as the definitive establishment of a second-hand trade in download-only software. The decision and its implications are potentially pivotal for the future of the second-hand trade in eBooks, computer games and other digital content. This paper seeks to demonstrate that although perhaps not explicitly intended by the Court, the case is a clear example of the application of the continuing discussion of “online/offline equivalence”. It is argued that, on this basis, it is clear that the Court was attempting to foster the legal framework necessary for such a second-hand market in digital content of any variety. However, the paper concludes speculatively, questioning the long term relevance of the decision. It is argued that if the likes of cloud-based distribution services such as Spotify become the norm, the existence of the very concept of second-hand may fade.

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## 1. *UsedSoft*, Exhaustion and Equivalence – Old Habits Die Hard?<sup>1</sup>

In September 2012, Bruce Willis unwittingly caused society to question the ownership status of their digital content, whether it was the music on their iPods or the eBooks on their Kindles.<sup>2</sup> While claims that the actor was suing Apple over his inability to bequeath his iTunes collection to his children were probably untrue (it was amusingly speculated that someone had misread “estates and wills” as “estates and *Willis*”<sup>3</sup>) the engrossing ownership questions remained.<sup>4</sup> The Willis debacle brought such questions into the collective consciousness of a public who had until then been content to click “I agree” on licence agreements without any intention of ever reading or appreciating just what they were agreeing to.

For those in European legal and technical circles, such questions rose to the forefront of consideration in July 2012, when the Grand Chamber of the Court of Justice of the European Union (ECJ) issued its decision on *UsedSoft GmbH v Oracle International Corp.*<sup>5</sup> The decision declared that those who download large-scale, enterprise-wide commercial software in fact own it, and thus its author’s distribution right under the Software Directive is “exhausted”.<sup>6</sup> Many commentators welcomed the decision as the definitive establishment of a second-hand trade in download-only software.<sup>7</sup> The implications of the decision are potentially massive for the future of the second-hand trade in eBooks, computer games and other digital content, despite *UsedSoft* relating to the Software Directive, and other content generally being governed by the InfoSoc Directive.<sup>8</sup> The question is particularly significant in light of the latter Directive’s

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<sup>1</sup> All hyperlink access confirmed 14/01/2013.

<sup>2</sup> “Bruce Willis to fight Apple over right to leave iTunes library in will” by Ben Child 03/09/2012, available at <http://www.guardian.co.uk/film/2012/sep/03/bruce-willis-apple-itunes-library>.

<sup>3</sup> “No, Bruce Willis isn’t suing Apple over iTunes rights” by Charles Arthur 03/09/2012, available at <http://www.guardian.co.uk/technology/blog/2012/sep/03/no-apple-bruce-willis>.

<sup>4</sup> “Bruce Willis v Apple: who actually “owns” the music on an iPod? By Leo Hickman 03/09/2012, available at <http://www.guardian.co.uk/technology/shortcuts/2012/sep/03/bruce-willis-v-apple-owns-music-ipod>.

<sup>5</sup> Case C-128/11 *UsedSoft GmbH v Oracle International Corp.* [2012] Judgement of the European Court of Justice (Grand Chamber) (hereafter, *UsedSoft v Oracle* or *UsedSoft*).

<sup>6</sup> For an official summary see Court of Justice of the European Union; Press Release No 94/12, 3 July 2012, available at <http://curia.europa.eu/jcms/upload/docs/application/pdf/2012-07/cp120094en.pdf>; for the Software Directive, see Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs, available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:111:0016:0022:EN:PDF>.

<sup>7</sup> See, for example, “EU – *UsedSoft v Oracle*: ECJ approves sale of “used software” by Kathy Berry for Linklaters, available at <http://www.linklaters.com/Publications/Publication1403Newsletter/TMT-News-November-2012/Pages/EU-Used-Soft-Oracle-ECJ-approves-sale-used-software.aspx>.

<sup>8</sup> Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, available at: [http://eur-lex.europa.eu/smartapi/cgi/sga\\_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=EN&numdoc=32001L0029&model=guichett](http://eur-lex.europa.eu/smartapi/cgi/sga_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=EN&numdoc=32001L0029&model=guichett).

broad purpose of updating European intellectual property law and making it appropriate for the modern technological environment.<sup>9</sup>

This paper seeks to pull the second-hand market in digital consumer content from the “legal black hole”<sup>10</sup> within which it is said to exist and attempt to make predictions about its future. It will be demonstrated that the deeply purposive and principled nature of *UsedSoft* means that the decision is an extremely strong indicator of how the ECJ would react if requested to make a ruling on this market. There exists very clear jurisprudential intent in *UsedSoft*, built upon foundations of the principle of “online and offline equivalence”. While the principle is not directly referred to by the ECJ, it will be argued that there is enough evidence of its presence to conclude that it strongly influenced its reasoning, and that appreciating its fidelity to the principle makes it possible to predict the future in a relatively assured manner.

This is explained in three sections. The first seeks to summarise the principles which were foundational to the Court’s decision. While equivalence helps to predict the future, it is meaningless without first understanding the “offline” laws to which the “online” laws must be equivalent. The first section is therefore in two parts, looking at the policies underlying exhaustion of distribution rights, followed by a similar analysis of equivalence. The second section of the paper looks at the decision itself through the lens of these principles, homing in on the parts of the decision that are most relevant to the future of the second-hand market for consumer content.

The final part of the paper is in three future-predicting parts. The first looks at videogames, which stand apart from other digital consumer content. The second looks at the “short term potential” of the decision’s application to the digital second-hand market. The final part looks further into the future, examining whether and how the established principles might survive in the face of new technology and business models deployed by content providers to evade the more consumer-friendly principles of *UsedSoft*. The paper concludes that while it is relatively simple to envisage the impact on the second-hand market for consumer content that the decision immediately implies, whether this market can survive long-term in practice is far less clear.

## 2. Principles and Foundations

### 2.1 Exhaustion

Before examining equivalence, it is worth establishing a firm appreciation of the principle of exhaustion in order to better appreciate the policy motivating the Court. Copyright law is about balance. The Berne Convention has been described as granting rights to authors which are merely a small part of a much broader economic and social picture.<sup>11</sup> Indeed, Recital 31 of the InfoSoc Directive explains that its goal is to strike

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<sup>9</sup> *Ibid*, in particular see the preamble to the Directive. Article 1, entitled “Scope”, also begins “This Directive concerns the legal protection of copyright and related rights in the framework of the internal market, with particular emphasis on the information society”.

<sup>10</sup> “Who inherits your iTunes library?” by Quentin Fottrell, 23/08/2012, available at [http://articles.marketwatch.com/2012-08-23/finance/33336852\\_1\\_digital-content-digital-files-apple-and-amazon](http://articles.marketwatch.com/2012-08-23/finance/33336852_1_digital-content-digital-files-apple-and-amazon).

<sup>11</sup> J.P. Kolczynski – “Exhaustion of copyright of computer software online: a European (Polish, German, Austrian) and US perspective”. [2011] *European Intellectual Property Review* 578, at 578.

a “fair balance” between the interests of right holders and the interests of “users of protected subject-matter”. Creators need incentive to create; society has much to gain from access to their works. Exhaustion fits neatly within this rationale, acting as a reasonable restriction on the exclusive distribution right of copyright proprietors.<sup>12</sup> Exhaustion has been described as ensuring that the distribution right is “a single shot pistol and not a machine gun”.<sup>13</sup> A “first sale” of a copy of a work “exhausts” an author’s distribution right and he loses all ability to control further sale of that copy.<sup>14</sup> The principle is easily understood offline: once a copy of *Harry Potter* is sold to Adam, its author cannot prevent Adam from selling that particular copy to Bob.

While there are said to be many motivations behind exhaustion,<sup>15</sup> perhaps the most compelling is the societal interest in guarding the “second hand market of ideas”.<sup>16</sup> There is significant social value in guaranteeing the free circulation of works of art, education and culture.<sup>17</sup> Exhaustion prevents authors from engaging in monopolistic practices, such as attaching conditions to second hand sales of copies,<sup>18</sup> which would unduly impede this circulation.<sup>19</sup> Exhaustion is justified by an expectation that prudent authors should, when first distributing works, demand a level of remuneration that they deem satisfactory taking into account the fact that they are only allowed a single shot.<sup>20</sup> Exhaustion was described in *UsedSoft* itself as a means of guaranteeing only “what is necessary to safeguard the specific subject-matter of the intellectual property concerned”.<sup>21</sup> Allowing authors any means of demanding remuneration that they already ought to have secured would upset copyright’s delicate balance.

Exhaustion takes on a unique role within the European Union, where it acts as a means of preventing segregation of the internal market.<sup>22</sup> Exhaustion guarantees that if a distribution scheme is established in one member state the author cannot object to citizens from other States accessing it, thus preventing an author from exploiting or discriminating against particular national markets. This harmonisation, which began

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<sup>12</sup> Distribution rights are enshrined for signatories in the Article 6 of the World Intellectual Property Organisation’s [WIPO] Copyright Treaty (adopted in Geneva on December 20, 1996) and in the European Union by Article 4 of the InfoSoc Directive.

<sup>13</sup> A. Lucas – “International Exhaustion” from L. Bently, U. Suthersanen, P. Torremans (eds) *Three Hundred Years Since the Statute of Anne, From 1709 to Cyberspace* (2010) Chapter 23 [p304] at 306.

<sup>14</sup> See InfoSoc Article 4(2) and the Software Directive Article 4(2).

<sup>15</sup> See generally L. Bently, U. Suthersanen, P. Torremans (eds) *Three Hundred Years Since the Statute of Anne, From 1709 to Cyberspace* (Cheltenham, Edward Elgar Publishing, 2010) Part III.

<sup>16</sup> T. Targosz – “Exhaustion in digital products and the “accidental” impact on the balance of interests in copyright law” from L. Bently, U. Suthersanen, P. Torremans (eds) *Three Hundred Years Since the Statute of Anne, From 1709 to Cyberspace* (Cheltenham, Edward Elgar Publishing, 2010) Chapter 26 [p337] at 343.

<sup>17</sup> A. Lucas – “International Exhaustion” at 306.

<sup>18</sup> T. Cook “Exhaustion – a casualty of borderless digital era” from L. Bently, U. Suthersanen, P. Torremans (eds) *Three Hundred Years Since the Statute of Anne, From 1709 to Cyberspace* (Cheltenham, Edward Elgar Publishing, 2010) Chapter 27 [p354] at 356.

<sup>19</sup> J.P. Kolczynski – “Exhaustion of copyright of computer software online” at 578.

<sup>20</sup> T. Targosz – “Exhaustion in digital products” at 344.

<sup>21</sup> *UsedSoft v Oracle* paragraphs 62 - 63.

<sup>22</sup> J.P. Kolczynski – “Exhaustion of copyright of computer software online” at 578.

in the 1970s with *Deutsche Grammophon*,<sup>23</sup> justifies making exhaustion part of Union legislation, justifies any ECJ intervention,<sup>24</sup> and was of course taken into account by the *UsedSoft* Court.<sup>25</sup>

## 2.2 Equivalence

*UsedSoft* saw the ECJ hold that a permitted download of software from a provider's website coupled with the grant of a perpetual licence was a "sale"<sup>26</sup> and thus exhaustion ought to apply,<sup>27</sup> in turn laying the foundation for a second-hand trade in such software. As will be explored more specifically below, this was not purely because the ECJ deemed that it was equitable to import exhaustion into the digital context. Ensuring harmony between analogue and digital markets was seemingly a just outcome in its own right. Such aspiration could be explained by the emerging concept of online and offline equivalence. Appreciating the Court's commitment to such a principle is critical to predicting what it might do if faced with similar questions in relation to a second-hand market in consumer content.

Equivalence began with the Bonn Ministerial Conference Declaration of 1997,<sup>28</sup> with Ministers stressing "that the general legal frameworks should be applied on-line as they are off-line."<sup>29</sup> Equivalence's influence is apparent in much EU legislation. For example, recital 5 of the InfoSoc Directive notes that "no new concepts for the protection of intellectual property are needed" despite the fact that "technological development has multiplied and diversified the vectors for creation, production and exploitation". It is often remarked that the ECJ utilises somewhat fluid and "dubious" principles based upon foundational EU law in order to guarantee justice and ensure an overall coherence in law.<sup>30</sup> While "equivalence" is not specifically referred to in *UsedSoft*, the ECJ appears to channel general EU intention, stating that the "principle of equal treatment" demands that exhaustion must apply to both tangible and intangible copies of software, lest the very principles of the Software Directive should be undermined.<sup>31</sup>

Equivalence is a complex topic,<sup>32</sup> but it is hoped that a brief policy based overview is sufficient to shed light on *UsedSoft*. Equivalence can act as bulwark against normative

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<sup>23</sup> *Deutsche Grammophon Gesellschaft mbH v Metro-SB-Großmärkte GmbH & Co. KG*. [1971] C – 78/70.

<sup>24</sup> T. Cook – "Exhaustion" pp357 – 359.

<sup>25</sup> *UsedSoft v Oracle* paragraphs 62 – 63.

<sup>26</sup> *Ibid* paragraphs 37 – 48.

<sup>27</sup> *Ibid* paragraphs 61.

<sup>28</sup> C. Reed – "Online and Offline Equivalence: Aspiration and Achievement". (2010) 18(3) *International Journal of Law and Information Technology* 248, at 249.

<sup>29</sup> Bonn Ministerial Conference Declaration of 6-8 July 1997, principle 22, available at: [http://web.mclink.it/MC8216/netmark/attach/bonn\\_en.htm#Heading01](http://web.mclink.it/MC8216/netmark/attach/bonn_en.htm#Heading01) .

<sup>30</sup> A. Kaczorowska, "European Union Law" (Second Edition, 2011), section 8.3.

<sup>31</sup> *UsedSoft v Oracle* at paragraph 61.

<sup>32</sup> See, for example, C. Reed "Online and Offline Equivalence", C. Reed, "Taking Sides on Technological Neutrality" (2007) 4(3) *SCRIPT-ed* 265 and M. Schellekens – "What Holds Off-Line,

degradation. It has been said that the law has fallen into “confusion and disrepute”,<sup>33</sup> with citizens viewing the internet as “another world” where traditional off-line laws apply loosely, if at all.<sup>34</sup> Worrying norms have developed, such as file sharing being acceptable as no physical taking occurs.<sup>35</sup> Lack of equivalence also causes confusion: economists argue that normative confusion has led to consumer insecurity, and insecure consumers are bad for the market.<sup>36</sup> Equivalence fosters faith and good conduct, both increasingly important as our online lives continue to take on equal, and often greater, social and economic importance than their offline counterparts. Where the world that citizens are familiar with offline is mirrored online (such as in a digital second-hand market), a broad importation of offline norms will hopefully take place.<sup>37</sup> Writing as early as 2003, Eric Tai stressed the importance of digital exhaustion given that exhaustion generally was “firmly entrenched” in “the public sense of justice”.<sup>38</sup> Satisfaction of the public sense of justice ought to lead to a more satisfied and compliant public generally, a notion of which the ECJ was most likely aware.

Of course, equivalence must be sought carefully: blind attempts to make laws equivalent can cause distinct harm to the interests that the law ought to be protecting.<sup>39</sup> Most relevant to *UsedSoft*, problems can arise where an activity transported online might appear *prima facie* to be equivalent to its offline counterpart, but in practice technology has so fundamentally altered the activity that applying existing laws would be harmful.<sup>40</sup> Private copying is the most typical example of such a transitional problem.<sup>41</sup> In most civil law jurisdictions private copying was deemed acceptable because it was *de minimus* and impossible to police. However, when this seemingly innocuous activity was transported online, technology radically altered the equation. Private copying became the basis for file sharing, which became an epidemic which irreparably damaged the music industry.<sup>42</sup> It is hoped that this brief summary of both sides of the equivalence debate - preserving justice whilst bearing in mind the need to avoid any injustice caused by fundamentally altered practices - is sufficient to appreciate the sort of concerns relevant to the ECJ in deciding *UsedSoft*.

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Also Holds On-Line” from B.J. Koops, M. Lips, C. Prins and M. Schellekens (eds) *Starting Points for ICT Regulation: Deconstructing prevalent policy one-liners* (Cambridge: CUP, 2006) Chapter 3 [p51].

<sup>33</sup> I. Hargreaves – “Digital Opportunity: A Review of Intellectual Property and Growth”. An independent report prepared for the UK Government (May 2011) at 5 and 43.

<sup>34</sup> See T. Cook “Exhaustion” 361 – 362.

<sup>35</sup> A. Murray – *Information Technology Law: The Law and Society* (2010) 50.

<sup>36</sup> See T. Cook “Exhaustion” at 361 – 362, citing the work of Peter Ganea.

<sup>37</sup> See C. Reed – “Online and Offline Equivalence” at 253 – 254 and T. Targosz – “Exhaustion in digital products” at 351 – 352.

<sup>38</sup> E.T.T. Tai – “Exhaustion and online delivery of digital works” *EIPR* 25(5) (2003) 207 at 207.

<sup>39</sup> C. Reed – “Online and Offline Equivalence” at 257 - 269.

<sup>40</sup> *Ibid* 261 – 264.

<sup>41</sup> M. Schellekens – “What Holds Off-Line, Also Holds On-Line” 63 – 65.

<sup>42</sup> For example, see “Filesharing “costs music industry £500m”” by Robert Budden for the Financial Times 16/09/2012, available at <http://www.ft.com/cms/s/0/3028e704-fdd0-11e1-8fc3-00144feabdc0.html#axzz2GWqVx4s2>.

### 3. The Decision – Principles in Practice

Commentators responding favourably to the *UsedSoft* decision declared it “sensible” and “progressive” in that it maintained that balance of interests that exhaustion had established offline.<sup>43</sup> Many stated that the market for second-hand software had been definitively established.<sup>44</sup> It could be said that *UsedSoft* was an attempt to maintain the interest balancing of exhaustion established offline, influenced by the overarching principle of equivalence. If this indeed was the Court’s motivation, then it ought to be relatively straightforward to conclude that the Court would take a comparable course of action if faced with a question of how to deal with a second-hand market in digital consumer content.

#### 3.1 *The Ruling*

*UsedSoft* was a reference from the German Bundesgerichtshof, asking the ECJ to explain the appropriate interpretation of the Software Directive. Article 1(1) guarantees that computer programs are copyright protected as literary works. Article 4(1) gives their authors an exclusive, inexhaustible right of reproduction. Running a program on a user’s computer requires a basic level of reproduction, thus Article 5(1) permits a “lawful acquirer” to undertake any reproduction necessary to use the software in question for its “intended purpose”. Article 4(2) states that the first sale of a copy of a program exhausts distribution rights over that copy.

The European second-hand software debate in fact has an extensive history over a decade long, with litigation and academia originating particularly in Germany.<sup>45</sup> Prior to *UsedSoft* the orthodox view was that acquirers of second-hand software could never be “lawful” for the purposes of the Directive and thus any reproduction (essentially any use at all in the case of computer programs) was illegitimate. Any question of a second-hand market for such software was a non-starter.<sup>46</sup> The ECJ overturned this orthodoxy, dismissing arguments put forward by Oracle that their distribution method of a download coupled with a permanent licence for use did not amount to a sale.<sup>47</sup> Instead, noting that sale was nowhere defined in the relevant legislation, the Court suggested that an appropriate standardised definition might be: “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”.<sup>48</sup> Particular

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<sup>43</sup> Y.H. Lee – “Sales of “used” software and the principle of exhaustion” (2012) 43(7) *International Review of Intellectual Property and Competition Law* 846, at 847 and 852.

<sup>44</sup> See, for example, “EU – *UsedSoft v Oracle*: ECJ approves sale of “used software” by Kathy Berry for Linklaters or R. Moscona “The Software Industry Wakes Up To A Brave New World” I.T. Law Today October 2012 8-9.

<sup>45</sup> T. Cook – “Exhaustion” 362 – 365 and C. Stothers “When is Copyright Exhausted by a Software Licence?” [2012] 34(11) *European Intellectual Property Review* 787, at 788.

<sup>46</sup> B. Batchelor and D. Keohane “*UsedSoft* – where to now for software vendors?” (2012) 33(12) *European Competition Law Review* 545, at 546.

<sup>47</sup> *UsedSoft v Oracle* paragraphs 37 – 48.

<sup>48</sup> *Ibid* paragraph 42.



emphasis was placed on the permanence of such transfers.<sup>49</sup> The Court explained that downloads and licences were part of an “indivisible whole” as without the licence the download of the software was “pointless”.<sup>50</sup> Oracle sent permanent use one way, the customer sent remuneration the other. A sale had taken place. Article 4(2) and exhaustion were engaged.

Given that exhaustion applied and the right holder could not object to any subsequent transfers of the software, the Court concluded that logically this meant that a second-hand acquirer was also a lawful acquirer within the meaning of article 5(1).<sup>51</sup> The lawful acquirer was therefore entitled to undertake any reproduction necessary for use of the program for its intended purpose. Article 5(1) permits necessary reproduction provided that there is an absence of “specific contractual provisions” to the contrary. The ECJ nonetheless dismissed the non-assignment clauses in Oracle licence agreements as recognising them as valid contractual restrictions would undermine exhaustion.<sup>52</sup> A second-hand market for commercial software was born.

### 3.2 *Purposive Trends*

*UsedSoft* has been described as a “firmly purposive interpretation of the Directive”.<sup>53</sup> Indeed, the Court departed from Advocate General Bot’s prior Opinion on the case: while Bot was crucially aware of the important benefits of exhaustion he felt that it was impossible to read the directive in the manner subsequently adopted by the Court. He explained that while the right of distribution was indeed exhausted by Article 4(2), the inexhaustibility of reproduction rights meant that a second-hand acquirer could never be “lawful” and permitted to undertake reproduction for the purposes of Article 5(1). Exhaustion was in practice irrelevant. In the interests of “legal certainty” – an ECJ principle in its own right<sup>54</sup> – Bot felt it important not to deviate from this apparent intention of the legislature.<sup>55</sup>

That the Court deviated is not altogether surprising. Definite trends of the Court eschewing certainty in favour of progression certainly exist. The Court has previously declared that the Trade Mark Directive<sup>56</sup> “must not be interpreted solely on the basis of its wording, but also in the light of the overall scheme and objectives of the system of which it is a part”.<sup>57</sup> *Dior v Evora*<sup>58</sup> was also the subject of such *effet utile*

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<sup>49</sup> *Ibid* paragraph 45.

<sup>50</sup> *Ibid* paragraph 44.

<sup>51</sup> *Ibid* paragraphs 77 and 80.

<sup>52</sup> *Ibid* paragraph 77.

<sup>53</sup> B. Batchelor and D. Keohane “UsedSoft” at 546.

<sup>54</sup> A. Kaczorowska, “European Union Law” section 8.3.

<sup>55</sup> Opinion of Advocate General Bot delivered on 24 April 2012. Case C-128/11 Axel W. Bierbach, administrator of UsedSoft GmbH v Oracle International Corp, paragraphs 94-100. (“AG Opinion”)

<sup>56</sup> Once Directive 89/104, available <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31989L0104:en:HTML>, now Directive 2008/95/EC, available <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:299:0025:0033:en:PDF>.

<sup>57</sup> *Davidoff & Cie SA v Gofkid Ltd*, Case C-292/00, [2003], paragraph 24.

<sup>58</sup> *Parfums Christian Dior v Evora*, Case C-128/11, [1997].



reasoning, with the ECJ determining that exhaustion is a concept which cannot be understood solely in reference to copyright law and strove to shape “the concept... in an autonomous way.”<sup>59</sup> Indeed, just as the Advocate General’s interpretation of the Software Directive might be technically cleaner than the ECJ’s, *Dior* was met with similar technical criticism but “few would disagree with the result”.<sup>60</sup> In conjunction with *Football Association Premier League*,<sup>61</sup> *UsedSoft* has been said to be the “second major judgement” in nine months on considering how the single market ought to “treat the distribution of copyright works in non-material form”. The judgements combined amount to a “continuing commitment by the ECJ to ensure that technological change does not reintroduce territorial restrictions in Europe”.<sup>62</sup> Such a purposive trend is promising for the likelihood of the Court being supportive of an equivalent second-hand market for digital content mirroring the online market for commercial software understood to have been established as an immediate consequence of *UsedSoft*.

### 3.3 Equivalent Exhaustion: Policy Behind Purposiveness

*UsedSoft* was described by an American author as embracing “a version of media neutrality”.<sup>63</sup> The Court’s decision appears to channel the motivations behind and justifications for exhaustion described in section 2(a) above. Moreover, its commitment to bringing them to the digital market is consistent with the equivalence based policies discussed in section 2(b). It is worth analysing the Court’s deeply principled approach as it acts as an extremely good indication of how the Court might support a second-hand market in digital consumer content if the need arose.

An examination of the footnotes to the Advocate General’s Opinion reveals multiple references to textbooks and journal articles, and within the body of his text he refers to the “controversy” surrounding digital exhaustion in Germany.<sup>64</sup> It would not be unreasonable to assume that both the Advocate General and the Court were familiar with the academic zeitgeist surrounding the issue.<sup>65</sup> Equivalence-based arguments were rife in academic circles: Dr. Thomas Hoeren had declared it absurd to differentiate between on and offline distribution methods given that they were functionally equivalent. In 2010 he made an “appeal to fairness”, deeming it incorrect to separate on and offline markets in this way.<sup>66</sup> Janusz Kolczynski analysed Polish

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<sup>59</sup> T. Targosz – “Exhaustion in digital products” at 342.

<sup>60</sup> *Ibid.*

<sup>61</sup> *Football Association Premier League and Others v QC Leisure and Others*, Case C – 429/08, [2011].

<sup>62</sup> C. Stothers – “When is Copyright Exhausted by a Software Licence?” at 790.

<sup>63</sup> Prof. Randal C. Picker – “*UsedSoft GmbH v Oracle: Are you Exhausted Yet?*” for the Media Institute, available at: <http://www.mediainstitute.org/IPI/2012/071912.php>.

<sup>64</sup> AG Opinion paragraph 49.

<sup>65</sup> On this zeitgeist, see T. Cook – “Exhaustion” 362 – 365 and C. Stothers “When is Copyright Exhausted by a Software Licence?” at 788.

<sup>66</sup> *UsedSoft: Die Online-Erschöpfung im Softwarebereich: Fallgruppen und Beweislast* [“Online Exhaustion in the Software Industry: Groups and Burdens of Proof – selected passages from the article by Prof. Dr. Thomas Hoeren”], available at [http://www.usedsoft.com/pdf/Jura/Hoeren\\_Artikel\\_MMR\\_1007\\_Zusammenfassung\\_Final\\_100902.pdf](http://www.usedsoft.com/pdf/Jura/Hoeren_Artikel_MMR_1007_Zusammenfassung_Final_100902.pdf) (last accessed 14/01/2013).

and Austrian academia on the subject and also concluded that he was dissatisfied with the orthodox view given the fact that on and offline distribution are “functionally fully equal”.<sup>67</sup> With a degree of clairvoyance Kolczynski noted that even if the Directives were so restrictively constructed as to prevent online exhaustion this would be contrary to the free movement of goods and EU primary law.<sup>68</sup> Tomasz Targosz assessed that in an abstract and principled sense there was no good reason not to assimilate tangible and intangible distribution,<sup>69</sup> elsewhere opining that the public interest in circulation of works was relevant both on and offline, making it “desirable” to apply equivalence to intangible copies.<sup>70</sup>

Equivalence flickers throughout the Court’s decision and the Advocate General’s opinion; despite the latter ultimately feeling that his hands were tied by legislation. The ECJ emphasised “the principle of equal treatment”,<sup>71</sup> explaining that software authors could undermine the cultural circulation that exhaustion protects if tangible and intangible copies were to be treated differently. The Court felt it was “abundantly clear” that it was the intention of the EU legislature to “assimilate... tangible and intangible copies” in relation to exhaustion.<sup>72</sup> They confirmed that this was because “from an economic point of view... the online transmission method is the *functional equivalent* of a supply of a material medium”.<sup>73</sup> The Court seemed further to secure equivalence by establishing that in order to avoid infringing an author’s Article 4(1)(a) reproduction right, an original acquirer would have to make his own copy unusable on sale,<sup>74</sup> just as if a physical copy had been transferred offline.

The Advocate General placed great emphasis on appreciating the “purpose of exhaustion”, which he opined was well established offline: a first sale gives a rightholder sufficient opportunity “to realise the economic value of his right”.<sup>75</sup> Both the Advocate General and the ECJ emphasised that purposive analysis of exhaustion revealed it to be a means of ensuring protection only for the “specific subject-matter of the copyright”.<sup>76</sup> Not establishing a wide and purposive interpretation of “sale” in order to recognise a download and perpetual licence as such would allow authors to simply brand every download a “licence” and prevent further resale,<sup>77</sup> flouting exhaustion and allowing more than specific subject-matter protection.

In sum, it appears that the Court went beyond Bot’s recommended interpretation of the Directive in order to ensure that protections of the exclusive right of reproduction

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<sup>67</sup> See generally J.P. Kolczynski – “Exhaustion of copyright of computer software online”, but in particular 579.

<sup>68</sup> *Ibid.*

<sup>69</sup> T. Targosz – “Exhaustion in digital products” 347.

<sup>70</sup> *Ibid* 345.

<sup>71</sup> *UsedSoft v Oracle* paragraphs 61.

<sup>72</sup> *Ibid* paragraph 58.

<sup>73</sup> *Ibid* paragraph 61 [emphasis added].

<sup>74</sup> *Ibid* paragraphs 78 – 79.

<sup>75</sup> AG Opinion paragraph 59.

<sup>76</sup> AG Opinion paragraph 83 and *UsedSoft v Oracle* paragraphs 62 – 63.

<sup>77</sup> *UsedSoft v Oracle* paragraph 49, referencing AG Opinion paragraph 59.

could not weaken the equivalent principle of exhaustion by any means.<sup>78</sup> The Court's focus on the exhaustion principles discussed in 2(a) and the apparent commitment to equivalence discussed in 2(b) bode well for the foundations of a second-hand consumer content market.

### 3.4 Ignoring the risks

Reed and others have explained that equivalence is not desirable where an "equivalent" online activity is in fact so qualitatively different that blindly applying offline rules would be harmful.<sup>79</sup> It cannot be denied that digital second-hand markets are not identical to "second-hand bookshops and CDs in jumble sales" as they allow owners of copies of digital works to sell "perfect "as new" copies of the original work".<sup>80</sup> Economist Andreas Wiebe has explained that this creates "pure price competition". The balance of interests in the market is altered and authors are in direct competition with copies of their own work, identical in quality but sold at a cheaper price. This greatly reduces potential for remuneration and the incentive to create generally.<sup>81</sup> Wiebe notes that German Courts had been particularly careful to view exhaustion as part of a wider, dynamic market, and about more than protecting the rights of an individual acquirer of works.<sup>82</sup> The Advocate General acknowledged similar innovation-based concerns raised by Ireland<sup>83</sup> but they were conspicuously absent from the ECJ's decision, perhaps showing its determined equivalent-exhaustion focus.

The ECJ also disregarded Oracle's concerns over the impossibility of policing the requirement that the original acquirer makes their own copy unusable on transfer. The Court succinctly stated that it was up to authors to find improved technical solutions to this problem.<sup>84</sup> The Advocate General acknowledged the Italian Government's concern that encouraging digital exhaustion would place the protection of software in a precarious place generally,<sup>85</sup> something also apparently missing from the ECJ's decision. It has been argued that a heightened risk of piracy is a reasonable price to pay for digital exhaustion and that strong technical protection methods should be developed by authors.<sup>86</sup> Presumably the Court would share this opinion if asked for comment.

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<sup>78</sup> *UsedSoft v Oracle* paragraph 83.

<sup>79</sup> See section 2.2 above.

<sup>80</sup> B. Batchelor and D. Keohane "UsedSoft" at 545.

<sup>81</sup> A. Wiebe – "The economic perspective: exhaustion in the digital age" from L. Bently, U. Suthersanen, P. Torremans (eds) *Three Hundred Years Since the Statute of Anne, From 1709 to Cyberspace* (Cheltenham, Edward Elgar Publishing, 2010) Chapter 24 [p321] at 324.

<sup>82</sup> *Ibid* at 325.

<sup>83</sup> AG Opinion paragraph 39.

<sup>84</sup> *UsedSoft v Oracle* at paragraph 79.

<sup>85</sup> AG Opinion paragraph 41.

<sup>86</sup> J.P. Kolczynski – "Exhaustion of copyright of computer software online" at 582. E.T.T. Tai – "Exhaustion and online delivery of digital works" 209 – 210. *UsedSoft: Die Online-Erschöpfung im Softwarebereich: Fallgruppen und Beweislast* ["Online Exhaustion in the Software Industry: Groups and Burdens of Proof – selected passages from the article by Prof. Dr. Thomas Hoeren"].

Those cynical of *UsedSoft* have viewed it as the ECJ encouraging a second-hand market at the expense of copyright protection.<sup>87</sup> While this is most likely true, Tai has explained that while digital exhaustion is an inherently awkward legal construction, “hard cases are a fact of everyday legal life.”<sup>88</sup> In departing from the legal certainty prioritised by the Advocate General<sup>89</sup> the Court seems to have adopted Tai’s mantra. Preserving exhaustion came at a potentially high price, but at the end of the day the Court apparently decided that the benefits of equivalence outweighed the risks, and demonstrated its commitment to the preservation of an offline norm, potentially establishing an equivalence foundation across all digital second-hand markets.

#### 4. Implications of the Decision

We now turn to predicting the future. We are working from a baseline of the ECJ committing to equivalence-based exhaustion at the expense of stability as part of a larger trend of purposive Directive interpretation. Immediately following *UsedSoft*, commentators began to question whether the “adventurous”<sup>90</sup> and “progressive”<sup>91</sup> decision had “opened the doors to a second-hand market for iTunes, mobile apps and computer games”.<sup>92</sup> Some even suggested that “the greatest impact will probably be felt at the “retail software” level.”<sup>93</sup> Others were more certain, noting that the case was an indication that the ECJ “would be willing to allow music and movie downloads also to be resold”.<sup>94</sup> This analysis will be extended in three parts. The first looks independently at videogames. The second undertakes a “short-term” analysis of how the decision might directly influence a second-hand market in consumer content. The final part takes a more speculative approach, questioning the decision’s continuing relevance in the face of new technology.

##### 4.1 Videogames – a brief independent analysis

Videogames must briefly be considered separately from other digital content. While “program” is nowhere defined in the Software Directive, it is generally assumed that videogames fall within its ambit.<sup>95</sup> Certainly, UK courts have discussed the “computer

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<sup>87</sup> A. Sachdeva, G. Dickson – “Customers Can Resell Copies of Downloaded Software, Developers Can Try to Stop Them” *IT Law Today*, Oct (2012) 5 at 7.

<sup>88</sup> E.T.T. Tai – “Exhaustion and online delivery of digital works” 210.

<sup>89</sup> AG Opinion paragraph 99.

<sup>90</sup> “Welcome to the Brave Old World – *UsedSoft* and the “Full” Online Exhaustion” by Thomasz Tarosz for Wolters Kluwer Law & Business Copyright Blog, available at: <http://kluwercopyrightblog.com/2012/07/05/welcome-to-the-brave-old-world-%E2%80%93-usedsoft-and-the-%E2%80%98full%E2%80%99-online-exhaustion/>.

<sup>91</sup> Y.H. Lee – “sales of “used software and the principle of exhaustion”, 847.

<sup>92</sup> F. Maclean – “European Union (ECJ) has delivered its long-awaited decision in *UsedSoft v Oracle International Corp*” [2013] 19(1) *Computer and Telecommunications Law Review* 1, at page 2.

<sup>93</sup> R. Moscona “The Software Industry Wakes Up To A Brave New World” 8.

<sup>94</sup> A. Sachdeva and G. Dickson – “Customers can Resell Copies of Downloaded Software” 5.

<sup>95</sup> D. Booton and A. MacCulloch – “Liability for the circumvention of technological protection measures applied to videogames: lessons from the United Kingdom’s experience” 2012(3) *Journal of Business Law* 165, at 175.

programs embodied” in videogames.<sup>96</sup> Despite the apparent connection, videogames have a unique judicial history which may be a potential stumbling block for direct application of the *UsedSoft* decision.<sup>97</sup> In a case regarding *Half-Life 2*,<sup>98</sup> the Bundesgerichtshof declared that technical protection methods [“TPMs”] attached to videogames which guaranteed that they could only ever be registered against one computer system were not in contravention of exhaustion despite the fact that second-hand sale was impossible. The Court found that as the physical CD carrying the game could still be transferred, exhaustion was satisfied.<sup>99</sup>

In *UsedSoft* the court actively encouraged the use of TPMs to guarantee that original acquirers delete their own copy of software after transfer.<sup>100</sup> On the question of *UsedSoft*’s relationship to *Half-Life 2*, some have opined that *UsedSoft* “does not obligate software providers to make... resales possible technically”<sup>101</sup> implying that TPMs may be a legitimate means of defeating exhaustion despite the *UsedSoft* revolution. Of course, questions as to the legitimacy of *Half-Life 2* have been raised in light of the principled *UsedSoft* approach.<sup>102</sup> Even when *Half-Life 2* was decided in 2010 some German commentators noted that it was a practical undermining of exhaustion.<sup>103</sup> The ECJ’s disdain for those who would attempt to undermine the principle of exhaustion by branding sales “licences”, and its taking of a principled approach going beyond the Advocate General’s recommendation on what ought to be a “lawful acquirer” strongly indicate that it would not look favourably upon TPMs which would not permit transfer where the original acquirer is willing to erase his own copy. Moreover, *Half-Life* was a decision of the Bundesgerichtshof. It has already been displayed that the ECJ was happy to discard the Bundesgerichtshof’s more orthodox definition of “lawful acquirer”.<sup>104</sup> As *Half-Life* is only the law in Germany, it might perhaps be the case that videogame publishers in other nations will view *UsedSoft* as a signal to end the practice of over-restrictive TPM use.<sup>105</sup> Indeed, the Bundesgerichtshof itself may reconsider *Half-Life* in light of *UsedSoft*.

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<sup>96</sup> *Nova Productions Ltd v Mazooma Games Ltd* [2006] EWHC 24 (Ch) [esp. at 109]. See Practical Law Company – “Legal Protection of Software”, available at: <http://ipandit.practicallaw.com/7-202-4703>.

<sup>97</sup> Latham & Watkins LLP: “Client Alert: ECJ Rules the Resale of Used Software Licenses Legal” 17/07/12. [Available as PDF by searching [www.lw.com](http://www.lw.com)].

<sup>98</sup> BGH decision 11 February 2010, I ZR 178/08 – *Half-Life 2*.

<sup>99</sup> The full text of the decision is available: <http://juris.bundesgerichtshof.de/cgi-bin/rechtsprechung/document.py?Gericht=bgh&Art=en&sid=1d0a93c14986e02d7ee050cef640bb9a&nr=52877&pos=0&anz=1>.

<sup>100</sup> *UsedSoft v Oracle* paragraph 79.

<sup>101</sup> Latham & Watkins LLP: “Client Alert: ECJ Rules the Resale of Used Software Licenses Legal” 17/07/12. [Available as PDF by searching [www.lw.com](http://www.lw.com)].

<sup>102</sup> See Latham & Watkins “Client Alert” and Y.H. Lee “sales of “used software and the principle of exhaustion” at page 853.

<sup>103</sup> “BGH: Vertriebsplattform Steam als Voraussetzung für Computerspiel Half-Life 2 zulässig” 03/09/2010, available at <http://blog-it-recht.de/2010/09/03/bgh-vertriebsplattform-steam-als-voraussetzung-fur-computerspiel-half-life-2-zulässig/>.

<sup>104</sup> See Section 3.1 above.

<sup>105</sup> Latham & Watkins LLP: “Client Alert: ECJ Rules the Resale of Used Software Licenses Legal” 17/07/12. [Available as PDF by searching [www.lw.com](http://www.lw.com)]

#### 4.2 Short-Term Potential?

While there is debate, it is generally accepted that other digital consumer content – eBooks, iTunes songs, etc. – does not fall under the Software Directive, but instead the InfoSoc Directive.<sup>106</sup> After *UsedSoft* commentators were quick to suggest that it would not be long before similar digital exhaustion questions were brought before the ECJ in relation to the InfoSoc directive and implied that *UsedSoft* suggested a likely direction of its jurisprudence on that directive.<sup>107</sup> On the basis of equivalent exhaustion this is not an unreasonable conclusion, but it is not one without complication.

In order to deal definitively with the issue before it, the Court made it clear that it was ruling solely on application of the Software directive.<sup>108</sup> Oracle (supported by the Commission) brought the Court’s attention to the agreed statements on the WIPO Copyright Treaty<sup>109</sup> (the implementation of which was one of the “main aims” of the InfoSoc Directive<sup>110</sup>) and an April 2000 Report from The Commission to the Council on the implementation of the (original, 1991) Software Directive.<sup>111</sup> Both stated that exhaustion ought only to apply to the circulation of tangible articles with little explanation as to why.<sup>112</sup> Moreover, recital 28 of the InfoSoc Directive states that protection in that Directive relates to works “incorporated in a *tangible article*” and that first sale “exhausts the right to control resale of that *object* in the Community”.<sup>113</sup> Recital 29 states that “the question of exhaustion does not arise in the case of *services and on-line services* in particular... Unlike CD-ROM... where the intellectual property is incorporated into a *material medium*, namely an item of *goods*.”<sup>114</sup> Article 4(2) of the Directive explains that exhaustion only occurs on the transfer of ownership of an “object”.

In order to avoid these potential pitfalls, the Court dedicated a technical section of its judgement to explaining that the Software Directive is *lex specialis* in relation to the InfoSoc Directive and thus these points were irrelevant.<sup>115</sup> Importantly, however, the Court noted that the two Directives “must in principle have the same meaning”<sup>116</sup> and

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<sup>106</sup> M. Leistner – “Used software before Europe’s top court – The German Federal Supreme Court refers Oracle v UsedSoft case to the European Court of Justice” [2011] 42(5) *International Review of Intellectual Property and Competition Law* 503, at 505.

<sup>107</sup> F. Maclean – “ECJ has delivered its long-awaited decision” 2.

<sup>108</sup> *UsedSoft v Oracle* paragraph 60.

<sup>109</sup> World Intellectual Property Organisation Copyright Treaty (Adopted in Geneva on December 20, 1996) Agreed statements concerning Articles 6 and 7. Agreed statements available to view in endnotes attached: [http://www.wipo.int/treaties/en/ip/wct/trtdocs\\_wo033.html#P8\\_189](http://www.wipo.int/treaties/en/ip/wct/trtdocs_wo033.html#P8_189).

<sup>110</sup> *UsedSoft v Oracle* paragraph 53. [WIPO was approved on behalf of the European Community by Council Decision 2000/278/EC of 16 March 2000 (OJ 2000 L 89, p. 6)].

<sup>111</sup> COM (2000) 199 final, part VII.1.

<sup>112</sup> AG Opinion paragraph 35.

<sup>113</sup> Emphasis added.

<sup>114</sup> Emphasis added.

<sup>115</sup> *UsedSoft v Oracle* paragraphs 50 – 52.

<sup>116</sup> *Ibid* paragraph 60.

it has already been explained that they sought to establish a standardised definition of “sale” which should apply regardless of whether transfer is digital or analogue.<sup>117</sup> Moreover, the court stated that “*even supposing that*”<sup>118</sup> – in other words “we think it is highly unlikely that” – InfoSoc exhaustion should apply solely to tangible copies, the Directive was not relevant. While the Court has left the fate of digital exhaustion in relation to the InfoSoc Directive uncertain, these statements give a strong indication that it would interpret exhaustion in relation to both Directives identically if given the opportunity. It is especially telling that the subsequent paragraphs detail equivalence-based reasons why exhaustion should apply to intangible as well as tangible copies generally: both are functionally equivalent,<sup>119</sup> in order to preserve exhaustion and ensure appropriate remuneration only such transfers must be regarded as a sale and not provision of an online service;<sup>120</sup> and finally not allowing exhaustion might lead to partitioning of the internal market.<sup>121</sup>

In order to interpret the Directives in a uniform manner, the ECJ would of course have to depart from the views expressed by the Commission and the agreed statements on the WIPO Copyright Treaty stating exhaustion ought to apply to tangible articles only. However, the Directive has attracted criticism for being based upon the “plainly incorrect” assumption that all online distribution amounts to a service and not a sale, unreasonably “cutting off” the debate about online exhaustion at a time when technology was insufficiently advanced to make it a realistic consideration.<sup>122</sup> Moreover, the unique approach taken to implementation of WIPO in the United States allows for the “first sale doctrine” (US exhaustion) to apply whether a work is distributed online or off, despite the agreed statements.<sup>123</sup> In 2012 and beyond, the Court’s commitment to equivalence-based purposive application of law indicates that it would be willing to depart from such outdated statements of law where it can. Perhaps *UsedSoft* will also put pressure on the EU legislature to consider a brief redrafting of the InfoSoc Directive if the parliamentary schedule is particularly quiet.

The Court’s principled commitment to equivalent exhaustion as it relates to the Software Directive, coupled with its strong indications that the InfoSoc Directive ought to be interpreted in the same manner appear to be good foundations for a digital second-hand market in consumer content. Of course, the development of a *thriving* market depends on publishers making it technically possible to transfer purchased content easily.<sup>124</sup> It would presumably be relatively simple for the likes of Amazon or

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<sup>117</sup> *Ibid* paragraph 42.

<sup>118</sup> *Ibid* paragraph 60. Emphasis added.

<sup>119</sup> *Ibid* paragraph 61.

<sup>120</sup> *Ibid* paragraph 62.

<sup>121</sup> *Ibid* paragraph 62.

<sup>122</sup> T. Targosz – “Exhaustion in digital products” 346 – 357 and footnote 32; E.T.T. Tai – “Exhaustion and online delivery of digital works” 211.

<sup>123</sup> M. Peters – “The legal perspective on exhaustion in the borderless era: considerations of a digital first sale doctrine for online transmissions of digital works in the United States” from L. Bently, U. Suthersanen, P. Torremans (eds) *Three Hundred Years Since the Statute of Anne, From 1709 to Cyberspace* (Cheltenham, Edward Elgar Publishing, 2010) Chapter 25 [p329] 332 - 333.

<sup>124</sup> Lulu Blog – “The Word on Used eBooks” by Max Rivlin-Nadler 26/07/2012, available at <http://www.lulu.com/blog/2012/07/used-ebooks/>.



iTunes to develop a system whereby files could be transferred to another user while simultaneously erasing that file from the original purchaser's system, but whether they are willing remains to be seen. If *UsedSoft* gains public momentum perhaps consumer demand for such a system will see it implemented. IT consumers have won famous victories in the past: in 2007 consumer lobbying saw Apple remove digital rights management from iTunes files.<sup>125</sup> Perhaps *failure* to implement such a system may one day lead to litigation being brought against services such as Amazon for their failure to support the exhaustion-based second-hand market. Perhaps a revised InfoSoc Directive would mandate it. On the other hand while this is not unimaginable the constant progress of technology means that such predictions may be redundant.

#### 4.3 A Short Diversion: *ReDigi*

At this point it is perhaps instructive to contrast the ECJ's approach with that of the US District Court in the case of *Capitol Records v ReDigi Inc.*<sup>126</sup> The District Court dealt explicitly with the question of the legality of a service designed to allow the transfer of "second hand" music files and declared that such a system violated the rights of the copyright proprietor. In fact, ReDigi billed itself as "the world's first and only online marketplace for digital used music".<sup>127</sup> However, the District Court's overall theoretical approach differs so strongly from that of the ECJ that it arguably strengthens the "short-term potential" of the latter's decision discussed immediately above. While ECJ is perhaps equivalent to the United States Supreme Court in the respective hierarchies of the two jurisdictions, the contrast nonetheless remains compelling for illustrative purposes. However, this does leave open the somewhat interesting question (which this paper does not attempt to answer) of what could happen if *ReDigi* or a similar case were to reach the Supreme Court.

The District Court stood firmly at arm's length from technological evolution. It was explained that to take any other route would essentially be "judicial amendment of the Copyright Act".<sup>128</sup> The decision opens with a declaration that "this is a court of law and not a congressional subcommittee or technology blog".<sup>129</sup> To this end, the Court acknowledged that the first sale doctrine (the U.S.'s equivalent of exhaustion) had the potential to apply to the case but was in practice inappropriate.<sup>130</sup> This was owing to the fact that it was not a simple case of transferring a file, but that the transfer of a digital music file created a "new material object" on the hard drive of the recipient.<sup>131</sup> The Court ignored ReDigi's plea that no infringement took place as files were "migrated" and that copies of files could not exist in two places at once.<sup>132</sup> For the

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<sup>125</sup> A. Murray – *Information Technology Law* 44.

<sup>126</sup> *Capitol Records, LLC, v ReDigi Inc.*, No. 12 Civ. 95 (RJS), Memorandum and Order, March 30, 2013.

<sup>127</sup> *Ibid* at 1.

<sup>128</sup> *Ibid* at 17.

<sup>129</sup> *Ibid* at 1.

<sup>130</sup> *Ibid* at 4.

<sup>131</sup> *Ibid* at 7.

<sup>132</sup> *Ibid*.

Court, it was “beside the point that the original phonorecord no longer exists”.<sup>133</sup> It was felt that the “copy” in question was equivalent to the sale of an illicit cassette copy of a vinyl record.<sup>134</sup> Further, the Court declined to apply the apparently flexible American “fair use” doctrine, despite noting that it is an “equitable rule of reason” for which Courts are “free to adapt the doctrine to particular situations on a case-by-case basis”.<sup>135</sup> The Court’s reasons are many, but the most immediately relevant for present purposes is the suggestion that fair use is inapplicable as second hand sales would undercut the “first hand” market for such goods and eat into Capitol Record’s apparent profit entitlement.<sup>136</sup>

The contrast with the ECJ’s approach is striking and serves to illuminate the approach that the Court chose to adopt. The ECJ was eager to delve into what copyright and exhaustion/first sale mean in the modern digital environment. The ECJ was unperturbed by the concerns of judicial legislating that plagued the District Court. It is perhaps the case that the District Court had such concerns in part because of the fact that the Copyright Act is a federal statute and unlike the ECJ the District Court is not the most superior court in its jurisdiction. Regardless, the contrast further highlights the approach that the ECJ could and did take.<sup>137</sup> Further contrast can be found in specific points raised by both Courts. The District Court noted that ReDigi’s service was vulnerable to copyright infringing use as it was difficult to guarantee that transferred files were erased from the transferor’s computer.<sup>138</sup> As noted above, the ECJ encouraged rights holders to improve their own TPMs to ensure that this would happen.<sup>139</sup> Moreover, owing to the fact that it was launched “mere days before the close of discovery”, the District Court was unwilling to consider the updated “ReDigi 2.0” which may have laid the Courts’ fears over this matter to rest.<sup>140</sup> This is particularly frustrating for those hoping to establish a legally authorised digital second hand market, particularly given the fact that the Court later noted “while ReDigi 2.0, 3.0, or 4.0 may ultimately be deemed to comply with copyright law – a finding the Court need not and does not now make – it is clear that ReDigi 1.0 does not.”<sup>141</sup> While the door is theoretically open for ReDigi 2.0 or similar software, securing meaningful investment in such a service would practically be extremely difficult. Regardless, the fact that the case acts as an illustrative contrast remains. In light of *UsedSoft*, it is likely that the ECJ would be supportive of a European equivalent of a service such as ReDigi if legal action concerning it were to come before it.

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<sup>133</sup> *Ibid.*

<sup>134</sup> *Ibid* at 12.

<sup>135</sup> *Ibid* at 10.

<sup>136</sup> *Ibid* at 11.

<sup>137</sup> See Part 3, above, generally.

<sup>138</sup> *ReDigi* at 2.

<sup>139</sup> *UsedSoft v Oracle* paragraph 79.

<sup>140</sup> *Ibid*, see also note 3 above.

<sup>141</sup> *Ibid* at 16.

#### 4.4 Long-Term Relevance?

To return to the main tract of this paper, the following section discusses the long term relevance of the *UsedSoft* decision in light of the constant evolution of technology. It has become almost clichéd in legal academia to state that technology frequently outpaces law. In reporting on the U.K's present intellectual property law regime, Professor Hargreaves noted that Google is continuously making "bold entrepreneurial strikes which leave courts, regulators and governments gasping to catch up".<sup>142</sup> *UsedSoft* itself is a prime example of this disjointed rate of development: while the case was decided in 2012 the events which gave rise to the initial litigation took place in 2005 and the intervening period has seen unprecedented technological advancement.<sup>143</sup> To appreciate fully the potential ramifications of *UsedSoft* it is therefore perhaps also highly beneficial to consider how players "on the ground" are currently reacting. This is arguably best done by examining reactions to the decision found in legal advice memos posted by commercial law firms and reports of the case in the commercial press. The most common advice given to copyright proprietors by such services was to switch to subscription based or, ideally, cloud and Software as a Service ("SaaS") based business models.<sup>144</sup> Such sources were keenly aware of the Court's focus on exhaustion taking place where ownership is permanently transferred as the result of a sale. All sources explained that where media is provided over the cloud it is accessed purely over the internet: neither files nor ownership change hands, pulling the principle rug out from under the Court's feet. That this approach is probably a legitimate exception to the *UsedSoft* ruling has been confirmed by articles in numerous academic journals.<sup>145</sup> Tellingly, at the time of writing Oracle has begun billing itself as a "cloud marketing leader" having purchased cloud provider Eloqua.<sup>146</sup>

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<sup>142</sup> I. Hargreaves – "Digital Opportunity" at paragraph 4.28.

<sup>143</sup> C. Stothers – "When is Copyright Exhausted by a Software Licence?" 791.

<sup>144</sup> To illustrate, such advice was (or indeed warnings were) given by:

**Bird&Bird** – "UsedSoft v Oracle: What does it mean for your business?", available at [http://www.twobirds.com/English/News/Articles/Pages/UsedSoft\\_v\\_Oracle\\_What\\_does\\_it\\_mean\\_for\\_your\\_business.aspx](http://www.twobirds.com/English/News/Articles/Pages/UsedSoft_v_Oracle_What_does_it_mean_for_your_business.aspx),

**Cooley LLP** – "what effect will the *UsedSoft v Oracle* decision have on US Software Companies?", available at <http://www.cooley.com/what-effect-will-the-usedsoft-v-oracle-decision-have-on-US-software-companies>.

**Forbes** – "Used Software Pioneers Gain a Small Victory In a Shrinking On-Premises Software World." Available at <http://www.forbes.com/sites/raywang/2012/07/04/news-analysis-usedsoft-vs-oracle-ruling-opens-up-monopolistic-practices-by-software-vendors/>

**Linklaters** – "EU – UsedSoft v Oracle: ECJ approves sale of "used" software.", available at <http://www.linklaters.com/Publications/Publication1403Newsletter/TMT-News-November-2012/Pages/EU-Used-Soft-Oracle-ECJ-approves-sale-used-software.aspx>,

**Lexology**: "UsedSoft v Oracle opens up market for second-hand software licences", available at <http://www.lexology.com/library/detail.aspx?g=e40f6199-0705-4487-bfa9-1f1afa52a2d8>

**Squire Sanders** – "Does *Oracle v UsedSoft* End Restrictions on Reselling Software Licenses?", available at <http://www.squiresanders.com/does-oracle-v-usedsoft-end-restrictions-on-reselling-software-licenses/>.

<sup>145</sup> F. Maclean – "ECJ has delivered its long-awaited decision" at page 2, R. Moscona "The Software Industry Wakes Up To A Brave New World" at page 8, B. Batchelor and D. Keohane "UsedSoft" at 551; C. Stothers – "When is Copyright Exhausted by a Software Licence?" at 791.

<sup>146</sup> See <http://www.oracle.com/index.html>.

On this basis, as above, the future of second-hand digital content may largely depend on future relations between suppliers and consumers. It would be reasonable to assume that suppliers would ultimately like to switch to the cloud. Quite simply, if Adam cannot sell his eBook copy of *Harry Potter* to Bob, Bob is more likely to buy his own. The eBook publisher will have made money for two copies rather than one. What remains to be seen is whether consumers will allow for such rigid cloud-based (lack of) “ownership”. Typically, consumers like paying a flat fee and being granted *ownership* in return.<sup>147</sup> Users are generally wary of the cloud and feel it exposes them to security risks.<sup>148</sup> Downloading and controlling copies of works feels more “natural” to consumers, not least because they are accessible without internet access.<sup>149</sup> To approach the issue from an equivalence angle, working broadly within a system of transfer that consumers are familiar with increases consumer comfort.<sup>150</sup> Almost all consumer media is currently available in a “traditional” download, available in an offline, perpetual access format; alteration of this status quo would be unpopular. Perhaps consumers will have sufficient sway to encourage providers to maintain “traditional” download services to which exhaustion would apply and a second-hand market may flourish. Of course, the status quo is constantly in flux. As technology improves and consumer faith in the cloud increases, perhaps demand for more traditional transfers will fall away.

One may ask, given that technological advancement may mean that eventually all content “ownership” will be unavoidably cloud based, whether the ECJ may go to great lengths to preserve some form of equivalent exhaustion, expanding further the definition of “sale”. It is not unimaginable that just as the tangible status of the copy became irrelevant, so too will its stored location – it perhaps will not matter that no files pass to the consumer’s hardware. The Court may equate perpetual cloud access with a sale, in turn expecting that consumers are given some right of transfer of access to the relevant content. Of course, making access purely subscription based would negate the need to grant perpetual access and therefore prevent a sale from taking place, but again it would most likely cause consumer unrest if they were only ever able to “rent” their content. More intriguing still, second-hand cloud “sales” may simply be rendered entirely irrelevant if services such as Spotify<sup>151</sup> or Netflix<sup>152</sup> prove sustainable<sup>153</sup> and enough consumers migrate to them. Here, if Bob wants to read *Harry Potter* he no longer needs to be friends with Adam. Both could pay a flat rate subscription to an eBook equivalent of Spotify and have access to *Harry Potter* or any other book they like at any time they like – second-hand transfer does not matter.

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<sup>147</sup> R. Moscona “The Software Industry Wakes Up To A Brave New World” at 8.

<sup>148</sup> F. Maclean – “ECJ has delivered its long-awaited decision” at 2.

<sup>149</sup> T. Targosz – “Exhaustion in digital products” at 347 – 348.

<sup>150</sup> *Ibid.*

<sup>151</sup> [www.spotify.com](http://www.spotify.com)

<sup>152</sup> [www.netflix.com](http://www.netflix.com)

<sup>153</sup> Fact Magazine: “Spotify in Serious Financial Trouble, According to New Report” 10/10/12, available at <http://www.factmag.com/2012/10/10/spotify-in-serious-financial-trouble-according-to-new-report/>.

## 5. Conclusion – Normative Darwinism?

*UsedSoft* is a fascinating decision which calls into question both legal and economic principle. Its impact on the second-hand market for digital consumer content is however inherently uncertain. Viewed through the lens of equivalence, studying *UsedSoft* is almost like watching the Darwinian struggle of a dying norm as second-hand attempts to survive in an ever-changing world. If *UsedSoft* can fend off second-hand's decay and re-establish it as a valuable norm then it may act as the foundation for the establishment and preservation of the second-hand trade in computer games, eBooks and other digital content. This protection may come from either the ECJ or the EU legislature.

Norms and technology both, however, are perhaps more progressive than law. Perhaps exhaustion will indeed simply be a “phase-out model in the digital world”.<sup>154</sup> Perhaps *UsedSoft* is in fact the swansong of exhaustion and the swansong of second-hand. If Spotify and similar services come to dominate the digital consumer media market, then any expectation of second-hand could slowly disappear. There may cease to be anything to make online law equivalent to because “second-hand” will not be part of society's normative vocabulary: second-hand equivalence wouldn't need to be forcibly preserved, it would simply be irrelevant. If this is indeed the case, it perhaps adds a further consideration to Reed's equivalence model. Perhaps it is inappropriate to ask simply whether creating equivalent laws is possible, accounting for any potential risks. Perhaps courts and lawmakers generally will be tasked with looking further into the future and attempting to predict the development of technology and its responses to legal developments, and whether such developments will make it inefficient to invest time and effort in resolving difficult cases in the most theoretically desirable manner. How such an approach could be taken in practice is more difficult to suggest. There is something unattractive about the highest Court in the European Union opting to simply ignore a case on the basis of a (no doubt well informed) prediction that technology will most likely render its decision meaningless within the foreseeable future. It instinctively appears to represent an exceedingly reckless approach to justice, but also touches upon jurisprudential questions this paper is in no position to answer. In fact, it has barely formed the relevant questions. Regardless, it certainly highlights the difficulty of attempting to establish a “one size fits all” approach to the regulation of the rapidly evolving technological world.<sup>155</sup>

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<sup>154</sup> A. Wiebe – “The economic perspective: exhaustion in the digital age” at 327.

<sup>155</sup> For more general discussion on such points, see M. Gillen – “Lawyers and Cyberspace: Seeing the Elephant?”, [2012] 9:2 *SCRIPTed* 130.