

**GEDIPE'S ANNUAL CONFERENCE  
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**The right of making available to the public – and the questions of  
“digital exhaustion” and online “e-lending”**

**Dr. Mihály Ficsor\***

**Version A**

Answer to the questions about “digital exhaustion” of copyright and online “e-lending”: under the international treaties, there is no “digital exhaustion”; neither there is any online “e-lending”. In the given context, the rights of reproduction and (interactive) making available to the public exist along with possible exceptions to, or limitation of, those right – provided that the cumulative conditions of the three-step test are fulfilled.

**Version B; somewhat more in details**

**1. Disclaimers**

This paper includes serious criticism of two court decisions (and, in contrast, the expressions of tribute to the correctness of a third one). This should in no way be interpreted as absence of due respect for the institution of courts and for the important role and objectivity of judges, including the courts and judges whose decisions are analyzed in the paper. The criticism only concerns the decisions which, in my view, seem to be erroneous.

The views expressed in the paper do not necessarily reflect the position of any organization that the author may represent (or has ever represented).

**2. International treaties: right of distribution, its possible exhaustion,  
and its relationship with the right of (interactive) making available to the public**

***2.1. Right of distribution under Article 14(1) of the Berne Convention; the “implied distribution right”, and the preparatory work of the WCT***

At the level of the international norms, the right of distribution, for the first time, was provided in Article 14(1) of the Berne Convention. It reads as follows:

Authors of literary or artistic works shall have the *exclusive right of authorizing*:

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\* Member of the Hungarian Copyright Experts Body, former Assistant Director General of the World Intellectual Property Organization (WIPO).

- (i) the cinematographic *adaptation* and *reproduction* of these works, and the *distribution* of the works thus adapted or reproduced;
- (ii) the *public performance* and *communication to the public by wire* of the works thus adapted or reproduced. (Emphasis added)

The English text of the Convention does not offer sufficient guidance on what may be regarded as “distribution”. The French text is more informative because the expression “*mise en circulation*” – in literal English translation, “putting into circulation” – appears in it. It only means the *first* act of distribution (normally the first sale of a copy) as a result of which a copy is put into circulation. Since, under Article 37(1)(c) of the Convention, “[i]n case of differences of opinion on the interpretation of the various texts, the French text shall apply”, the French text determines the minimum obligation of the countries party to the Convention. It follows from this that the obligation under the Convention does not extend to the protection of a right of distribution of copies that having been already put into circulation. That is; the national laws of the member countries of the Berne Union may provide that, with the first sale or other first transfer of ownership of a copy, the right of distribution is exhausted; the owners of rights cannot control further acts of distribution.

In the course of the preparatory work of the WIPO Copyright Treaty (WCT), it was discussed how it should be interpreted that, in respect of cinematographic adaptations (and, by virtue of the reference in Article 14*bis*(1) to Article 14, cinematographic and other audiovisual works), the Berne Convention provides for a right of distribution (putting into circulation), but that it does not contain similar provisions concerning other categories of works.

The International Bureau of WIPO developed the “theory of implied right of (first) distribution” on the basis of two arguments. One of the arguments was that, in item (i) of Article 14(1), the provision on the right of distribution is redundant in the same way as the provision on the rights of adaptation and reproduction (rights, in respect of which item (ii) is obviously redundant in view of Articles 9 and 12 of the Convention containing general provisions on those rights applicable for all work, including those mentioned in Articles 14(1)(i) and Article 14*bis*(1)). According to the other argument, the right of distribution is a logical corollary of the right of reproduction also in the case of other categories of works in the sense that, when authors permit to a publisher to print several thousand copies of their works, it may be logically assumed that this is not for storing the copies in a warehouse, but for putting them into circulation (= distributing them). Therefore, the International Bureau suggested that the “Berne Protocol” – the way the draft treaty later becoming the WCT was called at time – include an interpretative provision to clarify that, under the Berne Convention, authors enjoy an exclusive right of *first* distribution of copies<sup>1</sup> (existing until the

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<sup>1</sup> See WIPO document BCP/CE/III/2 pp. 11-13. Detailed arguments were presented in the document, the essence of which is summed up in the WIPO Guide to the WCT as follows:

“There are sufficient reasons to believe that the provision on the right of distribution in item (i) of paragraph (1) is as much redundant as the provisions on the right of adaptation and the right of reproduction...

„[T]he provision of Article 14(1) of the Berne Convention was originally inserted in the text of the Convention at the 1948 Brussels revision conference. .. [W]hile the right of adaptation was already explicitly recognized in Article 12 of the Brussels Act, this was not the case yet as regards the right of reproduction. In spite of this, however, the redundancy also existed in respect of the right of

first sale of copies, not excluding the possibility for Berne countries to grant such a right beyond the minimum obligation also for subsequent sales of copies<sup>2</sup>).

It should be seen, however, that, even if – on the basis of the considerations discussed in the above-mentioned WIPO document – it may be concluded that, under the Berne Convention, a right of *first* distribution exists as an inseparable corollary to the right of reproduction, this right is not of a significant practical importance. The owner of the right of reproduction may control the conditions of the *first* distribution by means of contractual stipulations, and until the *first* sale (or other first transfer of ownership), the copies remain in the ownership of the person or legal entity who or which may be bound by such stipulations. The real complex issues emerge in respect of the effect of the first sale; whether or not it results in the exhaustion of the right of distribution (usually it does) and, if it does, with what territorial effect: national, regional or international.

In the context of the WCT, the issue of the right of distribution was solved in a more clear-cut way than just through an interpretative provision. At the third session of the Berne Protocol Committee held in June 1993, the views of the delegations were divided whether it would be sufficient to base the recognition of a right of first distribution just on an interpretative provision as mentioned above, and finally the Committee rather preferred the inclusion of an explicit provision on the right of distribution. This is further discussed below.

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reproduction; at that time, the Convention did not explicitly provide yet a right of reproduction... Nevertheless, nobody was of the view that,... it did not exist in the case of other works... There is good reason to believe that the provision of Article 14(1) on the right of (first) distribution was (and still is) of the same nature....

“There is good reason to believe this also if the nature of reproduction...as a basic form of exploitation of works is considered. The *raison d’être* and ultimate aim of the right of reproduction is to provide for control by the author... over the making available of copies of the work to the public; this is the essence of the normal exploitation of the work on the basis of the right of reproduction. An authorization given to a publisher to reproduce a work without the corollary authorization of the first distribution of the copies to the public would be meaningless... It would be impossible to exploit the right of reproduction in a normal way if that right were so restrictively interpreted as to only grant the author ... control over the making of copies, but no control over the first distribution of the copies reproduced. In that way, although the author or other owner of this right would have the exclusive right to authorize the making of copies of his work, he would be unable to exploit his work on the basis of this right.

“The 1967 Stockholm revision conference rejected a proposal for an explicit recognition of right of distribution; however, on the basis of how the debate is reflected in the report, it is quite clear that what was rejected was not a reasonable right of (first) distribution... but a possible over-ambitious “right of circulation.” The report also reflects that this happened only as a consequence of lack of sufficient time “due to the late arrival” of the proposal, rather than for any substantive reasons. What [was] rejected was a *general* right of distribution; that is, a right that would have gone beyond the *first* distribution. The conference did not deal with what could have been a more modest proposal, namely, that the right of distribution must only be recognized in respect of the *first* distribution and not also in respect of any subsequent distribution.” (See M. Ficsor: *Guide to the Copyright and Related Rights Treaties Administered by WIPO and Glossary of Copyright and Related Rights Terms*”, WIPO publication No. 891(E), 2003 (referred to as WIPO Guide and Glossary), pp. 86-87; notes left out).

<sup>2</sup> This paper does not deal with the resale right (*droit de suite*) provided in Article 14ter of the Convention – which is to be applied exactly in case of a resale (rather than in respect of first sale) – due to the special features of that optional right under the Convention which make it irrelevant from the viewpoint of the current issues of exhaustion of rights.

## **2.2. The TRIPs Agreement on exhaustion of rights; agreeing on not agreeing**

Article 6 of the TRIPs Agreement reads as follows:

For the purpose of dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.

Daniel Gervais has summed up the negotiation history and the meaning of this provision in this way:

WTO [members] that supported *national exhaustion* during the TRIPs negotiations (including Switzerland and the United States) tried to enshrine the principle in the Agreement, while others (including Australia, Brazil, Hong Kong, India and New Zealand) defended so-called "*international exhaustion*" or, at least, the *freedom* for each WTO member to "decide"... Under the system of international exhaustion, once a legal copy of product has been put into circulation (*i.e.* with the consent of the right holder) somewhere in the world, the rights in respect of such copy are exhausted... Under the national exhaustion system, rights are considered to be exploited territorially and, hence, authorisation must be obtained for each territory... The fact that exhaustion has been excluded, in the sense that international exhaustion cannot be invoked before a panel as a direct violation of TRIPs means that countries are still free to argue that territoriality already exists in conventions, in particular agreements incorporated into TRIPs.<sup>3</sup>

As remarked by Gervais, "international exhaustion" means that exhaustion having taken place in another country is irrelevant; the right of distribution is still applicable in the country where the first sale has not taken place yet; which in turn, means a *de facto* or *de iure* right of importation).

In the European Union, as provided in Article 4(2) of the Information Society Directive<sup>4</sup> – and also in Article 4(2) of the Computer Programs Directive<sup>5</sup> and in Article 5(c) of the Databases Directive<sup>6</sup> – regional exhaustion applies, the nature of which rather corresponds to "national exhaustion" in the sense that it is contrary to the principle of "international exhaustion". The exhaustion of the right of distribution only takes place when a copy is lawfully distributed in the territory of the European Union.

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<sup>3</sup> Daniel Gervais: „*The TRIPs Agreement: Drafting History and Analysis. Second Edition*;" London Sweet & Maxwell, 2003, pp. 112-113 (notes left out).

<sup>4</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.

<sup>5</sup> 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).

<sup>6</sup> Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases.

### **2.3. The WIPO “Internet Treaties” on the right of distribution and on its (possible) exhaustion: no right of distribution (and, thus, no exhaustion) for intangible copies**

The three WIPO “Internet Treaties” – the WCT, the WIPO Performances and Phonograms Treaty (WPPT) and the Beijing Treaty on Audiovisual Performances (BTAP)<sup>7</sup> – include, in substance, the same provision (and an agreed statement added to it)<sup>8</sup> on the right of distribution and its possible exhaustion (there are only “*mutatis mutandis*” differences due to the differing objects of protection covered):

#### *Article 6 Right of Distribution*

(1) [Authors of literary and artistic works][Performers][Producers of phonograms] shall enjoy the exclusive right of authorizing the making available to the public of the original and copies of their [works][performances][phonograms] through sale or other transfer of ownership.

(2) *Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in paragraph (1) applies after the first sale or other transfer of ownership of the original or a copy of the [work][performance][phonogram] with the authorization of the [author][performer][producer of the phonogram].*

*Agreed statement concerning [Articles 6 and 7]<sup>9</sup>[Articles 2(e), 8, 9, 12 and 13]<sup>10</sup>[Article 8 and 9]<sup>11</sup>: as used in these Articles, the expressions “copies” and “original and copies” being subject to the right of distribution and the right of rental under the said Articles, refer exclusively to fixed copies that can be put into circulation as tangible objects. (Emphasis added.)*

The provisions of the three WIPO Treaties are similar to Article 6 of the TRIPs Agreement in that they do not regulate the question of exhaustion of the right of distribution, but they also differ from the above-quoted provision of the TRIPs Agreement in three aspects.

First, the TRIPs provision does not provide for a right of distribution. It only states that the WTO dispute settlement system does not apply in respect of the exhaustion of rights (which normally only concerns the right of distribution). In contrast, the provisions of the WIPO Treaties provide for such a right to be applied for the making available of copies (or originals) to the public through sale or other transfer of property.

Second, the provisions of the WIPO Treaties also indicate when exhaustion may take place; namely in case of first sale of a copy (or the original). Otherwise, the Treaties foresee exhaustion only as an option and do not determine its territorial impact if it is applied, whether national, regional or international.

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<sup>7</sup> For the reasons for which the BTAP may be regarded the third WIPO „Internet Treaty,” see M. Ficsor: “*Beijing Treaty on Audiovisual Performances (BTAP): first assessment of the third WIPO ‘Internet Treaty’*” at [www.copyrightseesaw.net](http://www.copyrightseesaw.net).

<sup>8</sup> See Article 6 of the WCT, Articles 8 and 12 of the WPPT and Article 8 of the BTAP.

<sup>9</sup> Agreed statement in the WCT.

<sup>10</sup> Agreed statement in the WPPT.

<sup>11</sup> Agreed statement in the BTAP.

Third (and, from the viewpoint of the question of exhaustion of rights, this is the most important aspect), the agreed statement added to the provisions of the WIPO treaties also clarify that the right of distribution prescribed in those provisions is only applicable for the distribution of *tangible* copies (and originals). As discussed below, this is particularly important from the viewpoint of the questions of “online exhaustion” and online “e-lending”.

It is worthwhile noting that the right of distribution provided in the WIPO Treaties does not extend to rental (and lending) of copies and originals since such acts do not involve transfer of ownership (but only temporary transfer of possession).

The WIPO Treaties provide for separate rental right for the same categories of objects of protection as the TRIPs Agreement; namely for computer programs, audiovisual works and phonograms.<sup>12</sup>

On the basis of the principle of “relative freedom of legal characterization of acts and rights,”<sup>13</sup> it is possible for Contracting Parties to characterize rental (and lending) as “distribution”. Where they do so, on the basis of the same principle, they are obligated to exempt rental, in the cases prescribed in the TRIPs Agreement and the WIPO Treaties, from the exhaustion of the right of “distribution”.

It seems necessary to consider the meaning and impact of the proviso at the beginning of Article 6(2) of the WCT according to which “[n]othing in this Treaty shall affect the freedom

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<sup>12</sup> See Articles 7(1) of the WCT and Articles 9 and 13 of the WPPT.

<sup>13</sup> In the WIPO Guide and Glossary, the definition of “*relative freedom of legal characterization of acts and rights*” reads as follows:

1. It is a broadly applied practice in national legislation to use terms other than those appearing in the *international norms on copyright and related rights* concerning certain acts covered by such rights, and consequently by the rights themselves; that is, to characterize the acts and rights concerned in a way different from the way they are characterized legally in the said international norms. For example, several countries grant a “*right of public performance*” in a way that it covers more or less all *non-copy-related rights* (in particular, also the right of broadcasting and the right of communication to the public by cable (wire), which, in *Berne Convention* are construed as separate rights), or it is also frequent in national laws that a broader *right of broadcasting* is provided which also covers the *right of communication to the public by cable (wire)*, a separate right under the Berne Convention.

2. Such a practice is accepted and regarded as legitimate, provided that the level of protection granted by the legislation of the given country, in spite of the differing legal characterization of the acts and rights concerned, corresponds to the minimum level of protection prescribed by the relevant international norms on copyright and related rights (such as in respect of the nature of the rights - whether exclusive rights of authorization or a mere right to remuneration - or the scope of exceptions to and limitations on them). For example, if the concept of broadcasting is extended also to communication to the public and even to (interactive) making available to the public, this does not authorize the legislators of the country concerned to extend the limitations allowed in Article 11*bis*(2) of the Berne Convention (non-voluntary licenses or obligatory collective management) beyond the scope of the right of broadcasting determined in the Berne Convention (in its Article 11*bis*(1); that is, it is not permitted to apply the same limitations to cablecasting (of cable-originated programs) and to (interactive) making available of works to the public. For this reason, the principle of freedom of legal characterization of acts and rights should be referred to as the “principle of relative freedom of legal characterization of acts and rights”. (WIPO Guide and Glossary, p. 294.)

of Contracting Parties to determine the conditions, if any, under which *the exhaustion of the right in paragraph (1) applies*".

This proviso is somewhat strange and it contains a sort of self-contradictory element. It provides for broad freedom for the Contracting States: they may choose national, regional or international exhaustion; they may apply the principle of exhaustion for certain categories of works and not for others; they are allowed to apply exhaustion, for given categories, national, while for other categories, international exhaustion; and – it follows from the words "if any" – *they are free not to apply the principle of exhaustion at all*. Therefore, the paragraph might hardly be understood as providing for a mandatory limitation of the right of distribution.

Here comes the somewhat strange and self-contradictory aspect of Article 6(2). The proviso "[n]othing in this Treaty shall affect the freedom of Contracting State" may be interpreted in a way that even Article 10 of the Treaty on the three-step test does not affect their freedom. However, the question emerge what should happen where the legislators of a Contracting Party find that the application of the principle of exhaustion for a given category of works in a given case would conflict with a normal exploitation of works. Are they supposed to provide for exhaustion in such a case? The words "if any" make it clear that, they are not obligated to. Would it be meaningful and in accordance with the objective and spirit of the Treaty – would it correspond to the principle of balancing of interests – if, although it were found that exhaustion would conflict with a normal exploitation of works or would otherwise unreasonably prejudice the legitimate interests of rightholders, it still would be applied. In my view it might hardly be reasonable to answer these questions affirmatively.

Nevertheless, this self-contradictory aspect of Article 6 of the WCT – since its provisions only apply for making available to the public of *tangible* copies – does not seem to be of a real significance (and, from the viewpoint of the question of "digital exhaustion", it is irrelevant). In respect of distribution of tangible copies this seems to be the case since the resale of such copies is not a general practice and where it takes place it is a relatively slow process, not mentioning the fact that the quality of non-digital tangible copies is degrading and, along with this, their value decreases.

Therefore, after all, the question of the role of the "[n]othing.. shall affect" proviso from the viewpoint of the applicability of the three-step test is quite an artificial problem.

As regards the question of "digital exhaustion" in respect of online making available to the public of intangible copies, Article 6(2) of the WCT on exhaustion of the right of distribution clearly does *not* apply. The provision only relates to the right of distribution *under paragraph (1) of the same Article* which – as clarified in the agreed statement *only covers distribution of tangible copies*. The negotiation history of the right of interactive making available to the public based on the "umbrella solution" reveals that, although the acts of making available to the public as a result of which copies are obtained in the receiving computers may be *characterized* as distribution of copies, this does not change the fact that, under the WCT – as well as under the WPPT and the BTAP – the *protection* of the rights of authors and owners of related rights in respect of such acts should be granted in accordance with the provisions

of the Treaties on the right of interactive making available to the public. This is so because, irrespective of whether a work or object of related rights is made available to the public for downloading or just in the form of streaming in an interactive manner (in a way that members of the public may get access to it from a place and at a time individually chosen by them) for such acts this right is applies.

Therefore, it might not be regarded as a “greater protection” if, in a national law, online interactive making available of intangible copies were qualified as an act of distribution; it would be simply a specific *legal characterization* of the restricted acts concerned which, under Article 8 of the WCT (and the corresponding provisions of the other “Internet Treaties”), are covered by the exclusive right of making available to the public. In contrast, it would be in conflict with the minimum protection prescribed in the Treaties – and with the principle of “*relative freedom of legal characterization of acts and rights*” (see above) – if such an alleged “greater protection” were coupled with the limitation of the right by wrongly citing Article 6(2) of the WCT on the exhaustion of the right of distribution, a limitation which is only applicable for distribution of *tangible* copies.

The question of “digital exhaustion” has emerged in various court cases. The CJEU’s *contra legem* “new public” theory (in conflict with both the international treaties and the EU directives, based on an unfortunate misunderstanding of a comment in an out-of-date guide to the Berne Convention) also results – as a “collateral damage” – in the exhaustion of the right of communication to the public and the right of making available to the public. I have dealt with various papers with this theory and its application (application which reflects the Court’s sincere efforts to mitigate its negative effects)<sup>14</sup>; thus, I do not touch upon these problems in this writing which is quite voluminous even without this. As mentioned above, I discuss the questions of “digital exhaustion” and online “e-lending” mainly in the light of three court decisions (in the chronological order of their adoption): (i) the *UsedSoft* judgment of the CJEU<sup>15</sup> – which I do not find appropriate from *de lege lata* viewpoint, but I may be ready to support some of its elements on a *de lege ferenda* basis; (ii) the *ReDigi* decision of Judge Sullivan in the District Court of the Southern District of New York<sup>16</sup> – with which I do agree in both *de lege lata* and *de lege ferenda* aspects; and (iii) the *Stichting Leenrecht* judgment of the CJEU<sup>17</sup> – which I find problematic not only from *de lege lata* but also of *de lege ferenda* viewpoints.

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<sup>14</sup> On the exhaustion of the right of making available to the public under the CJEU’s „new public” and other theories – in conflicts with the WIPO Treaties and the EU Information Society Directive – see Mihály Ficsor: “*Svensson: honest attempt at establishing due balance concerning the use of hyperlinks – spoiled by the erroneous ‘new public’ theory*”, at [www.copyrightseesaw.net](http://www.copyrightseesaw.net).

<sup>15</sup> CJEU case C-128/11 (hereinafter: *UsedSoft*).

<sup>16</sup> *Capitol Record, LLC v. ReDigi Inc.*, No. 12 – 0095 S.D.N.Y. (hereinafter: *ReDigi*).

<sup>17</sup> CJEU case C-174/15 (hereinafter: *Stichting Leenrecht*).

### **3. *UsedSoft*: the CJEU's attempt at extending the doctrine of exhaustion of rights to online making available of intangible copies of computer programs**

#### **3.1. *The case***

In the *UsedSoft v. Oracle* case, the subject matter of the dispute was Oracle's programs covered by end-user license agreements (EULAs). The EULAs contained terms forbidding the licensees to transfer the computer programs to a third parties. UsedSoft, a company based in Germany, allowed its costumers "reselling", through its online system, programs covered by the licenses.

The CJEU held that the exhaustion of the right of distribution is also applicable for making available intangible – digital – copies of computer programs through online transmissions.<sup>18</sup>

In *UsedSoft*, with due respect, the CJEU erred for several reasons and, in doing so, adopted new law in conflict with the existing international and EU norms. This may be called "judicial activism", but this euphemistic expression cannot hide the fact that the Court has done something to which its competence does not extend. In the EU, the Council and the European Parliament have joint competence for the creation of new legal norms; the Court may only interpret and apply the existing norms, it must not amend them. Even if the amendment of an EU directive seemed to be desirable to CJEU judges, under the EU Treaty (Treaty on the Functioning of the European Union (TFEU)), they are not allowed to take the role of the legislative bodies in the form of "harmonization by stealth"<sup>19</sup>. If they still do, they circumvent the thorough and inclusive democratic process of preparation which is indispensable for the adoption of well-founded new norms. In contrast with this incursion into the territory of legislation, I consider Judge Sullivan's position the right one adopted in the *ReDigi* case, who stuck to one the basic guarantees of rule of law: the principle of separation of powers.

In the following points, it is discussed why the CJEU has erred and how it has created new law in conflict with the WCT and the *acquis communautaire*, in particular the Information Society Directive and the Computer Programs Directive.

***3.2. Article 6(2) of the WCT and Article 4(1) of the Information Society Directive on exhaustion of the right of distribution only apply for tangible copies of works (including computer programs); for online making available of intangible copies of works (including computer programs), Article 8 of the WCT and Article 3(1) of the Information Society Directive apply in the case of which – as made clear in Article 3(3) of the Directive – there is no exhaustion after the first (or any subsequent) such act***

As discussed above, the WCT only allows the limitation of the exclusive right of distribution by exhaustion with the first sale of *tangible* copies.

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<sup>18</sup> See the responses to the referred questions at the end of the preliminary ruling.

<sup>19</sup> On how this kind of „judicial activism“ of the CJEU's may conflict with the EU Treaty, see for example: L. Bently: „*Harmonization by Stealth and the ECJ*“ at [http://fordhamipconference.com/wp-content/uploads/2010/08/Bently\\_Harmonization.pdf](http://fordhamipconference.com/wp-content/uploads/2010/08/Bently_Harmonization.pdf).

Paragraph (1) of Article 6 of the Treaty – read together with the agreed statement adopted concerning it – provides for an exclusive right of distribution consisting in *making available to the public of tangible copies* and paragraph (2) of the Article allows exhaustion of this right – consequently – in respect of *such copies*. Under the three WIPO “Internet Treaties” – the WCT, the WPPT and the BTAP – for *online making available to the public of copies by wire or wireless means (obviously in intangible – digital – form)*, in such a way that members of the public may access them from place and at a time individual chosen by them (that is *interactively*), *the exclusive right of making available to the public applies*. In contrast with the right of distribution of tangible copies, *there is no provision allowing the exhaustion of that right*.

Article of 14 of the WPPT and Article 10 the BTAP provide for a *stand-alone right of interactive online making available to the public*. In the context of those Treaties, it is evident that *this right applies for any act of making available to the public* of fixed performances and phonograms irrespective of whether it allows downloading of copies (and therefore it may also be characterized as distribution) or not (in the form of streaming which may just be characterized as communication to the public). The two Treaties contain *mutatis mutandis* the same provisions on the right of distribution – limited to making available of *tangible* copies – as in Article 6 of the WCT (see Article 8 and 12 of the WPPT and Article 10 of the BTAP along with the agreed statement concerning them) which is the only right – and only in regard to such copies – in connection with which the Treaties permit exhaustion after its first exercise.

It is clear that even if, according to Article 8 of the WCT, the right of interactive making available to the public is not a stand-alone right (but it is provided under a broad right of communication to the public), its coverage is the same as under the two above-mentioned related rights Treaties – in the sense that it extends to making available of works for any interactive online transmissions irrespective of whether it only allows watching, seeing, listening to, studying works online, etc., or it also makes it possible to download and make digital copies. This follows from the text and context of Article 8 of the WCT<sup>20</sup>. However, if any shade of doubts might emerge in this respect, the “preparatory work” of the WCT (along with the “preparatory work” of the WPPT) dissolves it definitely.<sup>21</sup>

The essence of the “umbrella solution”<sup>22</sup> – on which the provisions of the three “Internet Treaties” on the right of making available to the public is based – consisted in the application of the principle of “*relative freedom of legal characterization of acts and rights*”. Under this principle, as mentioned above<sup>23</sup>, it is possible to characterize an act covered by a right in a

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<sup>20</sup> It follows, *inter alia*, from the very fact that the right of distribution only applies for making available of *tangible* copies, thus leaving the coverage of the acts of making available to the public of intangible copies to the right of interactive making available to the public.

<sup>21</sup> For the documents of the preparatory work of the Treaties and the discussion thereon, see „Chapter 4. The ‘Digital Agenda’ – the Right or Rights Applicable for Interactive Transmissions: the ‘Umbrella Solution’” in Mihály Ficsor: „*The Law of Copyright and the Internet – the 1996 WIPO Treaties; their Interpretation and Implementation*”, Oxford University Press, 2002 (hereinafter: Ficsor, Oxford) (pp. 145 – 254).

<sup>22</sup> See the preceding note.

<sup>23</sup> See note 13, *supra*.

way different from how it is characterized in a treaty *but only as long as the minimum level of protection prescribed by the treaty* for the given right is guaranteed. The minimum level of protection is determined by the scope of acts covered, by the nature of the right (whether it is an exclusive right or a mere right to remuneration) and by the possible exceptions to and limitations of the right. Exhaustion of a right is a limitation of the right. This limitation, *as a general rule*, may only be applied under the WCT for the right of distribution which only covers making available to the public of tangible copies; it is not applicable for other rights; thus, equally not for the right of communication to the public and the right of making available to the public.

It follows from the analysis above that it is in accordance with the obligations under the WIPO “Internet Treaties” to characterize the acts of (interactive) right of making available as communication to the public, as distribution, or just simply as making available to the public. However, the freedom of different characterization is limited in the sense that it cannot be used – in fact, rather misused – for decreasing the level of protection below what is prescribed in the Treaties. That is, if in the case of the rights of performers and producers of phonograms, the acts of right of making available to the public are characterized as communication to the public, it does not make it permissible to only apply the right to a single equitable remuneration provided in Article 15 of the WPPT just because the acts of interactive making available to the public are characterized as communication to the public. Equally, if certain acts of interactive making available to the public of intangible copies are characterized as distribution, this does not allow the application of the provisions on exhaustion of the right of distribution – the concept and scope of which is limited to making available of tangible copies – under Article 6(2) of the WCT just because what is under the Treaty is making available to the public is characterized as distribution.

It should be kept in mind that the provisions of the WCT are applicable for all categories of works and, therefore, also for computer programs. This is confirmed by Article 4 of the Treaty under which computer programs are protected as literary works within the meaning of Article 2 of the Berne Convention. In the second sentence of the Article, it is added that this is the case “whatever may be the mode or form of their expressions”. However, this second sentence does not offer further clarification in addition to the reference to Article 2 of the Convention in the first sentence. This is so because Article 2(1) of the Convention contains exactly the same phrase – just in singular – concerning any literary and artistic work (“whatever may be the mode or form of its expression”); thus, it applies in the same way also to computer programs. (In contrast, some clarification may be found in Article 10(1) of the TRIPs Agreement to which the agreed statement concerning Article 4 of the WCT refers; it makes it clear that “any mode or form” also means source code and object code formats.)

This confirms that, under the WCT, in the case of computer programs – as any other works, in particular literary works – Article 6(2) of the Treaty on the exhaustion of the right of distribution only applies in case of making available to the public of *tangible* copies. For making available of intangible copies through interactive transmissions of computer programs, the right of making available to the public applies (as provided within the broad right of communication to the public) under Article 8 of the Treaty. For this right, the WCT does not allow exhaustion after the first exercise thereof, irrespective of whether an act of

such making available is characterized as distribution (because copies are made through interactive transmission), communication to the public, or just making available to the public.

One of the main purposes – if not the main one – of the Information Society Directive has been the implementation of the WCT and the WPPT. This is made clear in Recital (15) of the Directive.<sup>24</sup> In the Directive, the Treaties have been duly implemented. This means, *inter alia*, that (i) the right of interactive making available has been introduced in Article 3(1) of the Directive in accordance with Article 8 of the WCT and the corresponding provision of the WPPT; (ii) the right of distribution has been provided in accordance with Article 6 of the WCT and Articles 8 and 12 of the WPPT; and that (iii) it is made clear – in Article 3(3) of the Directive – that the right of making available to the public is not exhausted.

As discussed above, under the WCT, the WPPT and the BTAP, the right of distribution only covers making available to the public of *tangible* copies and the possibility of providing for exhaustion of rights only applies for such acts. In close connection with this, the acts of online making available to the public of *intangible* copies allowing downloading of copies (irrespective of whether or not it is characterized as distribution) is covered by the right of making available to the public (in the case of the WCT as part of a broad right “communication to the public”, while in the case of the two other “Internet Treaties” as a stand-alone right) and this right is not exhausted under Article 3(3) of the Directive. There is nothing in the Information Society Directive which would contradict the provisions of the Treaties; there is no obstacle to interpret it in accordance with the treaty provisions. As regard the question of exhaustion of rights, Article 3(3) makes this abundantly clear. However, if somehow still any doubt might emerge about this, Recital (29) would fully dissolve it. It reads as follows:

*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... 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. (Emphasis added.)*

Equally, there is no provision in the Directive which might suggest that the term “works” is used in a way different from the meaning of “literary and artistic works” under the WCT and, in particular that it might not mean computer programs as any other categories of works. All

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<sup>24</sup> Recital (15) reads as follows: „The Diplomatic Conference held under the auspices of the World Intellectual Property Organisation (WIPO) in December 1996 led to the adoption of two new Treaties, the ‘WIPO Copyright Treaty’ and the ‘WIPO Performances and Phonograms Treaty’, dealing respectively with the protection of authors and the protection of performers and phonogram producers. *Those Treaties update the international protection for copyright and related rights significantly*, not least with regard to the so-called ‘digital agenda’, and improve the means to fight piracy world-wide. The Community and a majority of Member States have already signed the Treaties and the process of making arrangements for the ratification of the Treaties by the Community and the Member States is under way. *This Directive also serves to implement a number of the new international obligations.*

the provisions of the Directive mentioned above – in harmony with the WCT – also apply for computer programs.

It follows from this that any act of online making available of intangible copies of computer programs (irrespective of whether it is characterized as “communication to the public”, distribution or just making available to the public) is covered by the exclusive right of making available to the public and as such, under Article 3(3) of the Directive – in accordance with the above-mentioned provisions of the WCT – is not exhausted with any first or subsequent such and act.

***3.3. There are no provisions in the Computer Programs Directive that could not be interpreted in due accordance with the Information Society Directive and, thus, might prevail as *lex specialis* (if it were applicable; as it is not)***

3.3.1. *Introductory remarks.* The CJEU has tried to defend its ruling on the digital exhaustion of right – in conflict with the Information Society Directive (and the WCT which the Directive has implemented) – by arguing that it has been based on certain *specific provisions* of the Computer Programs Directive that must be applied as *lex specialis* in contrast with the provisions of the Information Society Directive as *lex generalis*.

It would be in obvious conflict with the declared objective of the Information Society Directive to implement the WCT if it allowed the application of specific norms of the Computer Programs Directive contradicting the provisions the adoption of which has been indispensable to implement the WCT, unless the specific norms were mirrored in corresponding provisions in the Treaty. However, there are no such specific provisions in the Treaty; the relevant norms – concerning the right of interactive making available, the right of distribution, and the possibility of providing for its exhaustion – apply exactly in the same way to computer programs (which, under Article 4 of the Treaty must to be protected as literary works) as to any other literary and artistic works.

In fact, it would be an insult to the EU legislators – the Parliament and the Council – to suppose that they have adopted the Information Society Directive in order to fulfill the obligations under the WCT but they explicitly maintained the applicability of certain provisions of previously adopted directives that are in conflict with the Treaty. However, if we compare the two Directives, it becomes clear that the EU legislators have not done so.

There are no specific norms in the Computer Programs Directive which could have justified its application as *lex specialis* in contrast with the Information Society Directive where it would have provided otherwise. What happened in *UsedSoft* was that the CJEU “retrospectively” amended the Computer Programs Directive by reading specific rules into it which, in fact, were not part of that Directive. Then the Court referred to those new rules just created by itself as *lex specialis*.

Let us review the CJEU’s arguments about the alleged *lex specialis* provisions of the Computer Programs Directive.

3.3.2. Article 4(2) of the Information Society Directive (which also fully applies for computer programs) uses the expression “sale... of copies” exactly in the same way and in the same context as Article 4(2) of the Computer Programs Directive; thus, referring to this expression as *lex specialis* is totally groundless. The CJEU states that Article 4(2) of the Computer Programs Directive refers – without further specification – to “sale ... of a copy of a program”, and „thus makes no distinction according to the tangible or intangible form of the copy in question.” This is considered by the Court as *lex specialis* justifying the exhaustion of acts of making copies of computer programs available through online transmissions.<sup>25</sup>

However, the *lex generalis* provision of Article 4(2) of the Information Society Directive contains exactly the same language „sale of copies of the work” (where „work” means any work including any computer program). *There is no difference whatsoever between the two Directives in this respect.* As discussed above, it is possible to *characterize* making copies through transmissions as distribution through sale (although, under Article 8 of the WCT and Article 3(1) of Information Society Directive, it qualifies as interactive making available to the public). This, however, does not change the fact that, for the reasons discussed above, exhaustion only applies to *tangible* copies first „sold” and it has nothing to do with the making of another intangible copy other than that original intangible copy through online transmission.

3.3.3. Referring to the expression “in any form” in Article 1(2) of the Computer Programs Directive as *lex specialis* is also completely groundless; in view of the same expression used in Article 2(1) of the Berne Convention, there is hardly anything so typically *lex generalis* in the field of copyright as this. The CJEU refers to Article 1(2) of the Computer Programs Directive which states that „[p]rotection in accordance with this Directive shall apply to the expression in any form of a computer program” and to Recital 7 of Directive which specifies that „computer programs” „include programs in any form, including those which are incorporated into hardware”. After this, the Court makes this statement: „Those provisions thus make abundantly clear the intention of the European Union legislature to assimilate, for the purposes of the protection laid down by Directive 2009/24, tangible and intangible copies of computer programs.”<sup>26</sup>

Five comments should be added to this.

First of all, although the Court is obviously right when it states that, in view of the above-mentioned provision and recital of the Computer Programs Directive, the intention of the European Union legislature is abundantly clear on covering both tangible and intangible copies of computer programs, it is also abundantly clear, on the basis of Recital (20) of the Information Society Directive, that, if the Computer Programs Directive provides in a certain way but the Information Society Directive provides otherwise, the provisions of the latter Directive are applicable.

Second, there is, however, no difference whatsoever in this respect between the two Directives. According to the Court, the provision in Article 1(2) of the Computer Programs

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<sup>25</sup> See *UsedSoft*, paras 40-42.

<sup>26</sup> *UsedSoft*, paras 57-58.

Directive by virtue of which the protection under the Directive applies to computer programs „in any form” is *lex specialis* in contrast with the Information Society Directive. However, it would be difficult to imagine any aspect of copyright that would be of a more *lex generalis* nature than this, because Article 2(1) of the Berne Convention provides in respect of *any* literary and artistic works that they are protected “whatever may be the mode of form” of their expression.

Third, the CJEU seems to imply that the *lex specialis* nature of the Computer Programs Directive, from the viewpoint of exhaustion of rights, exists for the following reasons. “Any form” means both tangible and intangible copies of programs. At the time of the adoption of that Directive (originally on May 14, 1991), there were still no provisions on the right of (interactive) making available to the public; neither any provisions clarifying that the right of distribution, along with its possible exhaustion, only apply for tangible copies. Therefore, if at that time there had been a system like UsedSoft, it would have been possible to interpret the provisions of the Directive on exhaustion of the right of distribution after the first sale of copies in a way that they also would apply for online sale. However, such a system and this kind of situation did not exist at that time; the issue did not emerge and the legislators consequently did not have to consider what kind of regulation would be appropriate (it goes without saying that the courts did not address the still non-existing issue either). When the question of digital exhaustion did emerge, both the international and EU legislators excluded it; they reduced exhaustion to the first sale or other first transfer of *tangible* copies of works (including computer programs). The CJEU in *UsedSoft* had to deal with the question of digital exhaustion when these new norms were in force already. Therefore, there was no reason not to apply the new norms which equally cover computer programs “in any form”, and to try to imagine instead how it could have been settled, if it had emerged in 1991 (as it obviously did not).

Fourth, the CJEU – although it has interpreted the EU Directives and the relevant international treaties now that, under the current norms, without any doubt whatsoever, there is no exhaustion by transmissions of intangible copies of works (including computer programs) – has introduced two diametrically opposing interpretations of the same acts depending on whether they concern copies of works in general (under the WCT and the Information Society Directive, also computer programs) or computer programs. The Court had recognized this contradiction, but tried to defend it in the following way:

It is true that the concepts used in Directives 2001/29 and 2009/24 must in principle have the same meaning. However, *even supposing that Article 4(2) of Directive 2001/29, interpreted in the light of recitals 28 and 29 in its preamble and in the light of the [WIPO Copyright Treaty, which Directive 2001/29 aims to implement,... indicated that, for the works covered by that directive, the exhaustion of the distribution right concerned only tangible objects, that would not be capable of affecting the interpretation of Article 4(2) of Directive 2009/24, having regard to the different intention expressed by the European Union legislature in the specific context of that directive.*<sup>27</sup> (Emphasis added.)

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<sup>27</sup> *UsedSoft*, para 60.

There must be a word-processing error in the second sentence quoted above. This must be so since the CJEU certainly did not want to claim that it *may only be supposed* what is mentioned there; namely that Article 4(2) indicates that the exhaustion of the distribution right concerns only tangible copies. The provision does not leave any doubt whatsoever that the right of interactive making available to the public is *not* exhausted, irrespective of whether the act of making available consists in interactive streaming of works (and thus it may be characterized as communication to the public) or in interactive transmission of intangible copies (and thus may be characterized as distribution of copies). However, it is even more surprising that the Court, after having admitted the fact of contradictory interpretations, tries to justify it by “the different intention expressed by the European Union legislature in the specific context of that directive.”

I have read the Computer Programs Directive extremely thoroughly, but I have not found any article or recital where such “different intention” would have been expressed. There is nowhere any expression whatsoever of “different intention”: (i) under the Computer Programs Directive (although not expressly stated) both tangible and intangible (digital) copies may be recognized as copies, but this is also the case under the WCT (where an agreed statement concerning Article 1(4) expressly states this) and the Information Society Directive (where Article 2 expressly provides so); (ii) under the Computer Programs Directive, computer programs are protected “in any form” but, under the international treaties – the Berne Convention, the TRIPS Agreement and the WCT – also any works, including computer programs, are protected in any form too; (iii) online making available of intangible copies for downloading may be characterized as “sale” and as distribution of copies, but the Diplomatic Conference has adopted Article 8 of the WCT on the clearly stated understanding that such characterization is allowed<sup>28</sup>.

In contrast, the intentions that international and EU legislatures truly expressed are: (i) that computer programs must be protected as any other works, in particular as literary works; (ii) that the right of distribution – and consequently its possible exhaustion – only concern tangible copies, while online transmissions of intangible copies are covered by the right of interactive making available to the public; (iii) that one of the main objectives of the Information Society Directive was the implementation of the WCT (along with the WPPT) – the provisions of which, as it has been made clear, applies to computer programs the same way as to any other works; and (iv) that, therefore, the provisions of previously adopted directives only remain intact if the Information Society Directive – in fulfilling its declared objective – provides otherwise in order to implement the provisions of the WCT and the WPPT.

It is necessary to comment on the above-mentioned claim of the Court that the European Union legislature expressed the alleged “different intention” in the “*specific context*” of the Computer Programs Directive. It is not clear what the Court considered as a “specific context”. One thing is, however, sure; namely that there was no context whatsoever in 1991 yet where a UsedSoft-type system – and with it the *alleged* possibility of transferring a copy with its simultaneous deletion – would have existed. Consequently, the European Union

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<sup>28</sup> This was a key element of the „umbrella solution”; see *Ficsor*, *Oxford* p. 249.

legislation not only did not express any “different intention” concerning the question of digital exhaustion, but it did not even deal with that question at that time, because it had not emerged yet. And when it emerged, it was settled in the Information Society Directive in the way as discussed above.

Fifth, the Court intends to use as a weighty argument in favor digital exhaustion of computer programs that making available intangible copies of programs for downloading through online interactive transmissions is “functional equivalent” of distribution of copies through sale. It may truly be characterized in that way, but it is not an argument to regard this as a *lex specialis* aspect of the Computer Programs Directive. Exactly the same may be said about such making available of intangible copies of any other categories of works, for which (including computer programs) no exhaustion applies.

***3.4. As a result of online transmissions of computer programs through the UsedSoft system to be downloaded by members of the public, new copies are made (which is not “that copy”); the right of reproduction is also involved, which obviously is not exhausted by any act of reproduction***

3.4.1. *The storage of a protected work (including a computer program) in an electronic medium constitutes an act of reproduction.* The agreed statement concerning Article 1(4) of the WCT provides as follows:

The reproduction right, as set out in Article 9 of the Berne Convention, and the exceptions permitted thereunder, fully apply in the digital environment, in particular to the use of works in digital form. It is understood that *the storage of a protected work in digital form in an electronic medium constitutes a reproduction* within the meaning of Article 9 of the Berne Convention. (Emphasis added.)

Article 2 of the Information Society Directive is in accordance with this:

Member States shall provide for the exclusive right to authorise or prohibit direct or indirect, temporary or permanent reproduction by any means and in any form, in whole or in part:  
(a) for authors, of their works;..

As discussed above, these provisions apply to all categories of works, including computer programs.

3.4.2. *A UsedSoft customer who downloads a computer program makes a new copy which is obviously not “that copy” which had been uploaded by the original acquire of the computer program.* In view of the above-quoted provisions of the WCT and the Information Society Directive, it is clear that a UsedSoft customer makes a new copy. It is an act covered by the right of reproduction of the owner of copyright in the computer program concerned. The owner of copyright does not authorize such reproduction; just to the contrary, through an EULA, explicitly forbids it. The theory that the UsedSoft customer is authorized to make a new copy as a “lawful acquirer” of the program by virtue of the alleged *lex specialis* provision of Article 4(2) of the Computer Programs Directive cannot stand a closer scrutiny not only due to the reasons discussed above (namely, that there is no such *lex specialis* provision and

that, even if there were one, the Information Society Directive would apply since it applies otherwise), but also for the unambiguous criterion of exhaustion of the right of distribution under that provision of the Directive according to which it only applies to “that copy” which has been lawfully acquired. The new copy made by the UsedSoft customer is not “that copy”. This is not a matter of question that might depend on legal interpretation but it is a stubborn fact of reality.

**3.5. The Computer Programs Directive truly contains *lex specialis* elements, but they do not have anything to do with the issues referred to by the CJEU**

There are really specific norms in the Computer Program Directive which fall in the category of as *lex specialis* and the application of which remains intact under Article 1(2) and Recital (20) of the Information Society Directive, because that latter does not provide otherwise. The most important such *lex specialis* provisions are those on specific exceptions to the rights in computer programs. It is sufficient to refer to the complex rules in Article 6 allowing decompilation of programs. However, there is no *lex specialis* element that would justify the exhaustion of the rights of reproduction and making available to the public in case of making copies through online transmissions, irrespective of whether or not what actually takes place may be characterized as „distribution”.

**3.6. EULA as sale? What if the making available is with (renewable) time limits? Would not it be justified to differentiate prices depending on whether or not the transfer of an intangible copy is allowed to the lawful acquirer?**

It follows from the analysis above that, even if the transmission of an intangible copy of a computer program combined with an EULA might be characterized as sale and the act as distribution, it does not change the fact that, under the international and EU law, such an act is covered by the rights of interactive online making available to the public and reproduction, neither of which is exhausted with the performance of such an act. That is, from the viewpoint of the question covered by this paper, it is irrelevant.

However, the making available of a computer program in a way that, after it, the program is regularly updated – in fact changed – does establish a uniquely close relationship between the owner of rights and the acquirer of the program. This relationship may justify to concluding a contract like an EULA with a valid stipulation that the regularly modified electronic copy of the program is not allowed to be transferred to others.

Someone may use a work in different ways under different conditions; the price to be paid will be adapted accordingly. People may watch a film in a cinema for which they have to pay the price of a ticket, or on the basis of a DVD rented for which the price is higher, or by using a DVD bought in a shop at an even higher price, or just on the tv free of charge or against a subscription fee, etc. Sometimes, the prices are calculated in a way that also certain probable and foreseeable but uncontrollable “collateral” uses of the works are taken into account.

In view of all this, I am not persuaded that it is truly justified to qualify the online making available of a computer programs with an EULA as sale. It seems to be rather a stand-alone category; not rental, not lending, not making available under a free-software or open-source license, not sale in the form of transferring property in the program without any limit and conditions, not lease etc. – but just making available a program subject to an EULA. And the price may be adapted to the way one may have and use (but may not transfer the property in) the program.

The Court has applied two criteria for its finding that an EULA-based online making available is sale: (i) the program is permanent available; and (ii) it is against a remuneration “corresponding to the economic value of the copy of the work of which it is the proprietor”.

Two comments may be added to this, one to each of the two criteria. First, there are certainly also certain technical and contractual models available under which one could not speak about permanent availability, and which thus could easily undermine the legal construction adopted in *UsedSoft*. Second, what about a probable finding that the remuneration applied in the case of making available of a program with an EULA just correspond to the economic value to be extracted by the rightholder in accordance with the conditions of the EULA? What about the probable (and quite logical) response by the rightholders to *UsedSoft* that, where they make available intangible copies without the traditional EULA conditions, they substantially increase the remuneration to be paid in order to counterbalance the negative impact on their chance to duly exploit their works and rights (which may be reasonably foreseen not only due to the competition they are faced with on the markets by others selling their “used” programs, but also with the probable misuse of the system, through selling a copy but also keeping one, against which there is no real guarantee (see below)). And what about a possible contractual system under which the alleged “right” of a lawful acquirer of an intangible copy to “sell” it to others would be recognized, but the lawful acquirer would have to pay less if he or she waives that “right” and accepts the traditional EULA conditions? Would it be justified in any way whatsoever to limit the freedom of contract of the parties and forbid that they differentiate the conditions of a contract and the prices in that way? Hardly.

This would be also against the spirit and letter of the Computer Programs Directive which does provide broad freedom for the rightholders to determine the contractual conditions. It is true that, under Articles 5(2) and (3) and 6, certain exceptions (for making back-up copies, for observing, studying or testing the functioning of the program and for decompilation) cannot be “contracted out”, but Article 5(1) provides as follows:

*In the absence of specific contractual provisions, the acts referred to in points (a) and (b) of Article 4(1) shall not require authorisation by the rightholder where they are necessary for the use of the computer program by the lawful acquirer in accordance with its intended purpose, including for error correction. (Emphasis added.)*

The restricted acts under points (a) and (b) of Article 4(1) include “permanent or temporary reproduction of a computer program by any means and in any form; in so far as loading, displaying, running, transmission or storage of the computer program necessitate such

reproduction” and „the translation, adaptation, arrangement and any other alteration of a computer program and the reproduction of the results thereof”. These are normally necessary for the use of a computer program by the lawful acquirer in accordance with its usual intended purpose. It would not be reasonable to require separate authorization by the rightholder for carrying out such acts. And still, the provision begins with the words „in the absence of specific contractual provisions” which obviously means that the rightholder may prohibit or limit any of these acts – provided they do not fall under the above-mentioned provisions of Articles 5(2) and (3) and 6 – through specific contractual provisions. This also applies to the making of permanent and temporary copies, including when it relates to transmission or storage of programs. Could this provision be interpreted reasonably in a way that rightholders may prohibit or limit such acts to lawful acquirers with whom they have concluded contracts (even acts in accordance with the intended purpose covered by the contracts), but they cannot prohibit or limit the same acts in an EULA when the acts would be performed in the framework of transferring an intangible copy to somebody else with whom they have not concluded a contract? Again, hardly.

All this may boil down to the finding that the CJEU deep incursion into the field of legislation has been much ado about not much more than nothing.

### **3.7. UsedSoft considered from de lege ferenda viewpoint**

It is already not a *de lege lata* but a typical *de lege ferenda* argument that exhaustion might be justified since the original copy is supposed to be deleted and, thus, only one copy remains at the end. It is said that such making of another copy through transmission may have the same effect as transfer of the copy.

There are legal-political problems with this *de lege ferenda* argument; but the justified doubts about the allegation that “only one copy remains” seems to be an even bigger practical problem. Oracle has pointed out that it cannot be safely controlled that, when a copy included into the *UsedSoft* system by the original owner of the program, there is no other copy available already on an external device. The CJEU has tried to shrug off this fundamental problem by pointing out that, after all, it is also difficult to make sure in other cases that no infringing copies are made.<sup>29</sup> This strange statement shows that the Court pretended to forget how big difference is between infringements forbidden but not always controllable, on the one hand, and, on the other hand, a legal construction creating easy possibility – and also an excuse – for infringements undermining the chance for normal exploitation of works. It is the same as alleging that essentially there is no difference, from the viewpoint of hens, between two cases: on the one hand, the case where the fox has to go get them in the henhouse and, on the other hand, the case where they are delivered in the foxhole with the inscription in their necks “please, remember you have promised not to eat them”.

The CJEU judges, as a group of Terminators, have entered the field of legislation by including something in the Computer Programs Directive „retrospectively” that was not there and,

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<sup>29</sup> *UsedSoft*, para. 78.

through this, modifying the actual *acquis communautaire*; the *acquis* adopted in accordance with due legislative procedure by those Union bodies which, in contrast with the Court, truly have competence to create new norms and modify old ones.

It is important to note that, if the Parliament and the Council had had any intention to modify the *acquis* the way the Court has amended it, there would have been an opportunity to do so in 2009 when the codified version of the Computer Programs Directive was adopted. No such intention, no such idea emerged.

One may neglect this unfortunate intrusion of the CJEU into the field of legislation by saying that hopefully the cloud technology *with its virtualization environment not necessitating downloading programs and other works in the end-users' devices and/or the transformation of the contractual system may offer solutions for the owners of rights* to prevent conflicts with normal exploitation of their rights. However, this may hardly solve immediate problems.

One may also say that after all, the CJEU ruling *only concerns computer programs and it does not apply to other categories of works (even not to data bases and video games in which computer programs are only one of the elements)*. However, caution is needed in this respect. There is no guarantee that the other categories of works will not become victims of the CJEU's „judicial activism“ (a euphemistic expression referring to judges acting as legislators without due competence).

#### **4. *ReDigi*: no online exhaustion for intangible copies; example for how the CJEU would have had to act in *UsedSoft***

##### **4.1. *The case***

*ReDigi.com* was a kind of online music store established in a way similar to the *UsedSoft* system. It was advertised as „the world's first and only marketplace for digital used music.“<sup>30</sup> The “marketplace” allowed users to store their recordings in online lockers and “sell” them through the “Cloud.” If its customers wished to “sell” a “used” digital recording through the system, they had to download *ReDigi*'s software. The software made it possible for customers to designate the recordings legally purchased from iTunes Store or *ReDigi* that they wished to sell from their devices. In such a case, *ReDigi* removed the eligible recordings from the seller's device and stored them in its “cloud” for “sale.” Buyers were able to view a list of recordings that were for sale, and purchased and download them.

*Capitol Records* filed a lawsuit against *ReDigi*. In its complaint, *Capitol Records* claimed that the *ReDigi* was liable for several violations, including direct infringement, contributory and vicarious liability, and inducement of copyright infringement; it engaged in unauthorized reproduction, distribution, and public performances of the plaintiff's works and assisted users in making unauthorized copies and sales. In response, *ReDigi* has claimed fair use and the first sale doctrine as a defense; it contended that its system, which removed the digital

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<sup>30</sup> *ReDigi*, p. 1.

copy from its prior owner's access, so that only one person "owned" the digital copy at any time, should enjoy the same exemption from copyright liability as do tangible used books and records.

Judge Sullivan of the District Court of the Southern District of New York found in favor of the plaintiff – and rightly enough. He adopted an order granting Capitol Records "motion for summary judgment on its claims for ReDigi's direct, contributory, and vicarious infringement of its reproduction rights".<sup>31</sup>

The original version of this paper was delivered at the ALAI Congress which took place in Cartagena, Colombia, in September 2013. The report of the U.S. ALAI Group prepared in response to the congress questionnaire included a precise description of Judge Sullivan's order. It is sufficient to refer to its essence which shows that the District Court has done what the CJEU should have done in respect of „online exhaustion” (but it has done just the opposite). As it has been stressed in the order, the Court has applied the law in its existing *de lege lata* form and has not volunteered to take over Congress' legislative role on the basis of some *de lege ferenda* ideas.

The Court held that, even if it is supposed that the transfer of a copy of a work over the Internet does not produce extra retention copies – so that there is only one copy of the work before and after the transfer – it nonetheless infringes the copyright owner's exclusive reproduction right. Reproduction takes place when a work is fixed in a new material object, and the fact that the file is transferred from one material object to another means a reproduction occurred. In finding that the reproduction right was implicated, the Court rejected the application of the first sale doctrine and declined to find that the use was “fair”. Since the copies that ReDigi distributed were unauthorized, the court held that ReDigi had violated both the reproduction and the distribution rights.<sup>32</sup>

It was stressed by the Court out that the first sale doctrine applies only to the owner of a “particular” copy and is limited to the sale or other transfer of material items. Because the communication of a digital file (as opposed to a material object, such as a CD, in which the file is fixed) necessarily results in the creation of a new material instantiation (in the recipient's hard drive), the recipient does not obtain possession of “that copy”. New copies of works fall outside the scope of the first sale doctrine.<sup>33</sup>

The Court's order pointed out that “it is the creation of a new material object and not an additional material object that defines the reproduction right”<sup>34</sup> and rejected ReDigi's argument that the Court's reading of section 109(a) of the Copyright Act on the first sale doctrine would exclude digital copies of works from the meaning of the statute:

*Section 109(a) still protects a lawful owner's sale of her “particular” phonorecord, be it a computer hard disk, iPod, or other memory device onto which the file was originally*

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<sup>31</sup> *Ibid.*, p. 14.

<sup>32</sup> *Ibid.*, pp. 5-8.

<sup>33</sup> *Ibid.*, pp. 11-12.

<sup>34</sup> *Ibid.*, p. 6.

*downloaded. While this limitation clearly presents obstacles to resale that are different from, and perhaps even more onerous than those involved in the resale of CDs and cassettes, the limitation is hardly absurd – the first sale doctrine was enacted in a world where the ease and speed of data transfer could not have been imagined. There are many reasons... for why such physical limitations may be desirable.*<sup>35</sup> (Emphasis added.)

#### **4.2. ReDigi: rejection of the fair use claim**

As discussed above, Justice Sullivan also rejected ReDigi’s claim that its activity was allowed as fair use. The order has stated as follows:

On the record before it, the Court has little difficulty concluding that ReDigi’s reproduction and distribution of Capitol’s copyrighted works falls well outside the fair use defense. ReDigi obliquely argues that uploading to and downloading from the Cloud Locker for storage and personal use are protected fair use... Significantly, Capitol does not contest that claim... Instead, Capitol asserts only that uploading to and downloading from the Cloud Locker *incident to sale* fall outside the ambit of fair use. The Court agrees. *See Arista Records, LLC v. Doe 3*, 604 F.3d 110, 124 (2d Cir. 2010) (rejecting application of fair use to user uploads and downloads on P2P file-sharing network).<sup>36</sup> (Emphasis added.)

The Court has analyzed the four factors of fair use listed in section 107 of the Copyright Act and finds that “[e]ach of the statutory factors counsels against a finding of fair use.”<sup>37</sup> It is particularly justified to quote the Court’s findings concerning the fourth factor:

*ReDigi’s sales are likely to undercut the “market for or value of the copyrighted work” and, accordingly, the fourth factor cuts against a finding of fair use. Cf. Arista Records, LLC v. Doe 3*, 604 F.3d at 124 (rejecting application of fair use to P2P file sharing, in part, because “the likely detrimental effect of file-sharing on the value of copyrighted compositions is well documented.” (citing *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 923 (2005)). *The product sold in ReDigi’s secondary market is indistinguishable from that sold in the legitimate primary market save for its lower price.* The clear inference is that ReDigi *will divert buyers away from that primary market.* ReDigi incredibly argues that Capitol is preempted from making a market-based argument because Capitol itself condones downloading of its works on iTunes. (ReDigi Mem. 18.) Of course, Capitol, as copyright owner, does not forfeit its right to claim copyright infringement merely because it permits certain uses of its works. This argument, too, is therefore unavailing.<sup>38</sup>

In sum, ReDigi facilitates and profits from the sale of copyrighted commercial recordings, transferred in their entirety, with a *likely detrimental impact on the primary market for these goods.* Accordingly, the Court concludes that the fair use defense does not permit ReDigi’s users to upload and download files to and from the Cloud Locker incident to sale.<sup>39</sup> (Emphasis added.)

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<sup>35</sup> *Ibid.*, p. 13.

<sup>36</sup> *Ibid.*, p. 10.

<sup>37</sup> *Ibid.*

<sup>38</sup> *Ibid.*, 11.

<sup>39</sup> *Ibid.*

#### **4.3. Findings in *ReDigi* about what may qualify as conflict with a normal exploitation of works and as unreasonable prejudice to the legitimate interests of owners of rights; possible relevance from the viewpoint of the tree-step test**

The Court's findings concerning the fourth factor seems to be a paraphrase of a statement according to which ReDigi's unauthorized distribution (sales) of digital copies conflicted with a normal exploitation of the recordings and thus also unreasonably prejudiced the legitimate interests of the owners of rights.

This indicates that it is justified to ask the question of whether or not the exhaustion of rights is also controlled by the three-step test as provided in Article 9(2) of the Berne Convention, Article 13 of the TRIPs Agreement and Article 10 of the WCT.

A further reason for considering this question is to which Judge Sullivan has also referred in the order. Namely, *the reason for which the US Copyright Office in its report on the Digital Millennium Copyright Act rejected extension of the first sale doctrine to the distribution of digital works*, and pointed out that the justifications for the first sale doctrine in the physical world could not be imported into the digital domain. The USCO stated that "the impact of the [first sale] doctrine on copyright owners [is] limited in the off-line world by a number of factors, including geography and the gradual degradation of books and analog works."<sup>40</sup>

The ReDigi order has quoted the USCO report as follows:

[P]hysical copies of works degrade with time and use, making used copies less desirable than new ones. Digital information does not degrade, and can be reproduced perfectly on a recipient's computer. The "used" copy is just as desirable as (in fact, is indistinguishable from) a new copy of the same work. *Time, space, effort and cost no longer act as barriers to the movement of copies*, since digital copies can be transmitted nearly instantaneously anywhere in the world with minimal effort and negligible cost. *The need to transport physical copies of works, which acts as a natural brake on the effect of resales on the copyright owner's market, no longer exists in the realm of digital transmissions*. The ability of such "used" copies to compete for market share with new copies *is thus far greater in the digital world*.<sup>41</sup> (Emphasis added.)

Since there is hardly any doubt about a conflict with a normal exploitations of works and, thus, also about an unreasonable prejudice to the legitimate interests of the owners of rights, the only question concerning the applicability of the three-step test for the exhaustion of rights is whether an exception to or limitation of rights is involved (since the test is to control exceptions to and limitations of economic rights).

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<sup>40</sup> *DMCA Section 104 Report* of the United States Copyright Office; at <https://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-1.pdf>; p. xi.; quoted in *ReDigi* at, p. 12.

<sup>41</sup> *Ibid.*, pp. 82-83; quoted in *ReDigi* at pp. 12-13.

#### 4.4. Reasons for which exhaustion of rights may be regarded as a limitation of the rights concerned justifying the application of the three-step test

Exhaustion of rights is certainly not an exception to the rights concerned. However, according to the meaning of the word (and, under Article 31(1) of the Vienna Convention on the Law of Treaties, this is decisive for the interpretation of a treaty provision<sup>42</sup>) it does qualify as a kind of limitation of rights. Such an interpretation is strengthened by those provisions of the "Internet Treaties" (Article 6(2) of the WCT, Articles 8(2) and 12(2) of the WPPT and Article 8(2) of the BTAP) which make it clear that exhaustion is not an indispensable constituting element of the concept of the right of distribution; the Contracting Parties are allowed to provide for exhaustion on the basis of the same kind of language as what is used in provisions on exceptions and limitations. Let us take the text of Article 6(2) of the WCT:

Nothing in this Treaty shall affect the freedom of Contracting Parties to *determine the conditions, if any*, under which the exhaustion of the right in paragraph (1) applies after the first sale or other transfer of ownership of the original or the copy of the work with the authorization of the author. (Emphasis added.)

In the text quoted above, emphasis is added to the term "determine the conditions" which is the same as in Article 11*bis*(2) of the Berne Convention allowing limitations of the right of broadcasting (and the rights concerning related acts). Emphasis is also added to the words "if any" underlining that, in principle, a Contracting Party may choose not to provide for exhaustion of the right.

Therefore, there is no obstacle to apply the three-step test to the exhaustion of rights as a limitation. *ReDigi* offers sufficient reasons for a finding that unauthorized „online distribution“ (through reproduction through transmissions) may get in conflict with the three-step test.<sup>43</sup>

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<sup>42</sup> Article 31(1) of Convention reads as follows: „A treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose.“

<sup>43</sup> The regulation of the right of rental is a good example to show that, irrespective of whether it takes place through the application of the three-step test or through specific legislative norms, in certain cases, it is not justified to extend the scope of exhaustion of copy-related rights beyond the field where it relates to real resale of (or other transfer of property in) tangible copies. In certain countries, the concept of distribution also covers rental of copies (although rental does not mean transfer of property, but only transfer of possession). In accordance with this, the exhaustion of the right of distribution may also apply for rentals. However, where the exhaustion of the, thus, extended right of distribution conflicts with a normal exploitation of the works concerned (in particular, in respect of the right of reproduction), it is not applied for rental. This kind of connection between exhaustion and possible conflicts with the normal exploitation of materials protected by copyright or related rights may be witnessed, for example, in Article 14(3) of the TRIPs Agreement, Article 7(2) of the WCT, Articles 9(2) and 13(2) of the WPPT and Article 9(2) of the BTAP. Those provisions allow the limitation of the exclusive right of rental to a right to equitable remuneration or, under the BTAP, an exception to its application, provided, however, that this does not give rise to "material impairment" of the exclusive right of reproduction (a kind of synonym of conflict with a normal exploitation of the protected productions in respect of the right of reproduction).

There is still one more issue to consider in this respect. Article 6(2) of the WCT reads as follows:

Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in paragraph (1) applies after the first sale or other transfer of ownership of the original or a [tangible!] copy of the work with the authorization of the author.

“Nothing in this Treaty shall affect... the freedom” might, in principle, be interpreted as meaning that even Article 10 on the three-step test does not affect the freedom to provide for exhaustion of the right of distribution. As discussed above, such an interpretation would be badly founded. Furthermore, in respect of so-called „online distribution,” its possibility does not even emerge since Article 6 of the WCT only applies where *tangible* copies are distributed; thus, the freedom is not applicable for what may be legally characterized as “distribution” of intangible copies through reproduction through transmissions, but which, in the absence of tangible copies, is not covered by Article 6 – and, thus, neither is covered by the clause on such “freedom”.

However, even if it were supposed – without accepting it – that Article 6(2) is applicable for „online distribution,” the „Nothing in this Treaty” clause would not mean that making new copies would not be subject to the three-step test under Article 9(2) of the Berne Convention (and as a matter of redundancy also under Article 10(2) of the WCT). This would follow both from the non-derogation provision of Article 1(2) of the WCT and from Article 20 of the Berne Convention to be complied with under Article 1(4) of the Treaty).

Thus, it seems to be a well-founded interpretation that the three-step test is also applicable for limitations of rights through exhaustion. It follows from this that it is justified to state that massive unauthorized online “resale” (distribution through reproduction through transmissions) of copies of works is in conflict with the test.

## **5. Limitations of the rights of reproduction and making available to the public characterized as “e-lending” – *Stichting Leenrecht* seen from *de lege lata* and *de lege ferenda* viewpoints**

### **5.1. The case**

The issue of the differences or similarities between distribution of tangible copies (in a broader sense extending not only to sale but also to rental and lending), on the one hand, and making available of works an objects of related rights through transmissions for downloading electronic copies, on the other hand, has emerged – after the issue of the so-called “digital exhaustion” – again in the *Stichting Leenrecht* case. The CJEU had to deal with the question of whether or not the provisions of the Rental, Lending and Related Rights

Directive<sup>44</sup> on lending of tangible copies might be interpreted as also applicable for so-called “e-lending” of electronic copies by libraries through online transmission and downloading.

The Dutch Government<sup>45</sup> and the French and German Governments<sup>46</sup> having intervened in the case gave the correct response to this question raised by the referring Dutch court: also in view of the provisions of the EU Directives and the 1996 WIPO Treaties (in the given case, the WCT in particular), the Rental, Lending and Related Rights Directive cannot be applied where a library uploads a copy on its website and makes it available for the purpose of downloading an electronic copy.

## **5.2. The preliminary ruling**

*In contrast with this, the CJEU has adopted the following surprising judgment:*

Article 1(1), Article 2(1)(b) and Article 6(1) of Directive 2006/115/EC of the European Parliament and of the Council of 12 December 2006 on rental right and lending right and on certain rights related to copyright in the field of intellectual property must be interpreted as meaning that *the concept of ‘lending’, within the meaning of those provisions, covers the lending of a digital copy of a book, where that lending is carried out by placing that copy on the server of a public library and allowing a user to reproduce that copy by downloading it onto his own computer, bearing in mind that only one copy may be downloaded during the lending period and that, after that period has expired, the downloaded copy can no longer be used by that user.*<sup>47</sup>

This ruling, as discussed below, is in obvious conflict with the international treaties, in particular the WCT, and both with the Rental, Lending and Related Rights Directive and with the Information Society Directive. The judgment may hardly be regarded as a judicial act; it is a legislative act based on legal-political considerations, the essence of which seems to be this: “e-lending” is a useful activity; therefore, it should be allowed.

## **5.3. Correct quotations and statements – not followed by correct conclusions**

*The Court, first, states what corresponds to the facts; namely that Article 1(1) of the Rental, Lending and Related Rights Directive “does not specify whether the concept of ‘copies of copyright works’, within the meaning of that provision, also covers copies which are not fixed in a physical medium, such as digital copies,” and that it does not follow from*

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<sup>44</sup> Directive 2006/115/EC of the European Parliament and of the Council of 12 December 2006 on rental right and lending and on certain rights related to copyright in the field of intellectual property (codified version).

<sup>45</sup> See paragraph 14 of the AG’ opinion: “Further to a report commissioned by the Netherlands Ministry of Education, Culture and Science, it was concluded that the lending of electronic books did not fall within the scope of the exclusive lending right for the purposes of the provisions transposing Directive 2006/115 into Netherlands law. Consequently, the lending of electronic books by public libraries cannot benefit from the derogation provided for in Article 6(1) of that directive, which has also been transposed into Netherlands law.”

<sup>46</sup> The AG refers to this position of the two Governments and the arguments justifying it (trying to rebut them – without success) in paragraphs 46, 49 and 59 of his opinion.

<sup>47</sup> *Stichting Leenrecht*, point 1 of the summary of the ruling at the end of the judgement. I do not deal with the issues covered by points 2 and 3 of the summary (territorial effect of the exhaustion and the question of the role of the illegal source of the copy).

Article 2(1)(b) of the Directive which defines „lending” „that the subject matter referred to in Article 1(1) of that directive must also include intangible objects, such as those of a digital nature”.<sup>48</sup> (These statements are correct because from these provisions alone, of course, it truly does not turn out what kinds of copies are covered. It is another matter that, from other provisions of this Directive – and from the provisions of the Information Society Directive – it follows in an unmistakable manner that the right of lending, the same way as the rights of distribution and the right of rental, only applies for making available of tangible copies as objects.)

For examining the question of “whether there are grounds to justify the exclusion, in all cases, of the lending of digital copies and intangible objects”, the Court quotes recital 7 of the Directive, according to which “the legislation of the Member States should be approximated in such a way as not to conflict with the international conventions on which the copyright and related rights laws of many Member States are based”<sup>49</sup>. Then two paragraphs follow, after which the Court, should have simply stated that there is no such thing as “lending” electronic copies and proceed to the only remaining task: to decide about the costs:

34 According to the agreed statement annexed to the WIPO Treaty, the concepts of ‘original’ and ‘copies’, in Article 7 of that treaty, in relation to the right of rental, refer ‘exclusively to fixed copies that can be put into circulation as tangible objects’. It follows that *intangible objects and non-fixed copies, such as digital copies, are excluded from the right of rental*.

35 It is therefore necessary to interpret the concept of ‘rental’, in Article 2(1)(a) of Directive 2006/115, as referring exclusively to tangible objects, and to interpret the concept of ‘copies’, in Article 1(1) of that directive, as referring, as regards rental, exclusively to copies fixed in a physical medium.

If the CJEU had applied the well-established principles of interpretation of legal texts, or just the most elementary rules of logics, it should have truly stopped here. It should have found and stated that, under the WCT (and the Information Society Directive which has faithfully implemented it), for acts of online making available to the public of *intangible* copies by wire and wireless means, a separate right applies under Article 8 of the Treaty (and Article 3(1) of the Information Society Directive); consequently, the rights of distribution and rental – as explicitly clarified by the agreed statement concerning Articles 6 and 7 of the Treaty (and also following from recital (29) and Article 4 of the Information Society Directive) – only apply for making available to the public of *tangible* copies.

Article 8 of the WCT provides for an exclusive right of making available works, by wire or wireless means [that is not through tangible copies] in a way that the members of the public may access the works from a place and at a time individually chosen by them (that is, interactively) – included as part of a broadly construed right of communication to the public. Article 3(1) of the Information Society Directive has faithfully implemented this provision, practically in a verbatim manner. The documents of the preparatory work of the WCT (and of

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<sup>48</sup> *Ibid.*, paras 28-29.

<sup>49</sup> *Ibid.*, paras 30-31.

the WPPT) make it clear – and this is the essence of the well-known “umbrella solution”<sup>50</sup> – that the above-mentioned acts of interactive making available to the public cover both mere transmissions (streaming) and also transmissions for downloading; that, is for making copies. The agreement also extended to the possibility of characterizing such acts in a different way and of applying different rights corresponding to the different characterization, in particular characterizing interactive transmissions for downloading and to apply the right of distribution.

The “umbrella solution” was not a truly new legal construction; it was in accordance with the principle of „relative freedom of legal characterization”<sup>51</sup>. *However, under this principle, a specific legal characterization cannot change the nature and the level of protection of the rights involved* (with possible limitations allowed or not allowed). It cannot be disregarded what is actually taking place through an interactive online transmission that is characterized as “distribution”. It is in fact “*distribution through reproduction (making intangible copies through downloading) through interactive transmission*”. Different legal characterization of the acts of reproduction and making available to the public as distribution *does not allow Contracting Parties to provide for exhaustion of those rights*. Equally, although it is possible to characterize certain acts of transmission for downloading (in a way that the copy – not being a “transitional copy” at all<sup>52</sup> – may only be used for a limited time) as “e-lending”, it is still covered by the right of online making available to the public and the different legal characterization does not allow transforming that exclusive right of authorization into a mere right to remuneration in general (but only in a possible special case as a limitation of the right, provided that the three cumulative conditions of the three-step test under Article 10 of the WCT are fulfilled).

It follows from these legal aspects that, under the WCT and the Information Society Directive, the rights of distribution and rental only apply for making available tangible copies (as it made clear in the agreed statement adopted concerning Articles 6 and 7 of the WCT referred to in the above-quoted paragraph in *Stichting Leenrecht*). And it also follows from these legal aspects quite logically that Article 6(2) of the WCT only provides for exhaustion of the right of distribution (of tangible copies), that Article 4(2) of the Information Society Directive clarifies that the online right of making available to the public, as provided within the broadly construed right of communication to the public, does not exhaust with the carrying out of an act covered by the right, and that recital (29) made this absolutely evident (although the services/ goods dichotomy has to be deciphered in the copyright language as making available intangible versus tangible copies):

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... *Unlike CD-ROM or CD-I, where the intellectual property is incorporated in a material medium, namely an item of*

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<sup>50</sup> For the “umbrella solution”, see n. 21 above.

<sup>51</sup> For “relative freedom of legal characterization of acts and rights”, see n. 13 above.

<sup>52</sup> This is, of course, a reference to Article 5(1) of the Information Society Directives which in such a case, because the criteria listed in it are not fulfilled, does not apply for such acts.

goods, every on-line service is in fact an act which should be subject to authorisation where the copyright or related right so provides. (Emphasis added.)

From the an analysis of these provisions – that logically must have been made in close connection with the reference in paragraph 34 of the judgement to the agreed statement concerning Article 7 of the WCT – the Court could and should have drawn only one conclusion. The conclusion that the interactive making available of an *intangible* copy of a work by a library for 1 euro (only covering the costs<sup>53</sup>) is covered by the right of online making available to the public and not by the right of lending – *exactly in the same way* as the interactive making available of an *intangible* copy for 1,10 euro by anyone (which, in addition to the costs, also would include 10% profit as “commercial advantage”) is covered by the right of interactive making available to the public and not by the right of rental.

This conclusion should have been drawn because, as defined in Article 2(1)(a) and (b) of the Rental, Lending and Related Rights Directives, *the acts of rental and lending are exactly the same*: “making available [of the original or copies of works] for use, for a limited period of time”. *The only difference is not in the act performed and not in the nature of the copies – whether tangible or intangible – but in that an act of rental is carried out for direct or indirect economic or commercial advantage, while an act of lending is not for direct or indirect economic or commercial advantage, and it is made through establishments which are accessible to the public.* Therefore, since under the international treaties binding the EU and its (at present, still) 28 Member States and under the relevant Directives – see below – it is made clear that the right of rental only applies for making available tangible copies, it follows from this that for lending which is carried out exactly in the same way, necessarily the same applies. (Not mentioning the even more decisive fact – see below – that, although the Court has only referred to the agreed statement concerning Article 7 of the WCT on rental, this obviously follows from the Rental, Lending and Related Rights Directive itself and even it is stated explicitly in a verbatim way in its Article 11(3).)

Unfortunately the CJEU has not drawn this inevitable conclusion and has not made such correct statements.

***5.4. The CJEU’s suggestion: exactly the same terms not only in the acquis in general, and not only in the same Directive, but even in the same sentence does not have the same meaning depending on whether they relate to rental or lending***

Those who read the following paragraphs in *Stichting Leenrecht* again and again, finally have to believe to their eyes and accept that, in which they did not want to believe, the Court really have presented these arguments to prove its theory about “e-lending”:

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<sup>53</sup> This is a reference to recital (11) of the Rental, Lending and Related Rights Directive which reads as follows: „Where lending by an establishment accessible to the public gives rise to a payment the amount of which does not go beyond what is necessary to cover the operating costs of the establishment, there is no direct or indirect economic or commercial advantage within the meaning of this Directive.” (Emphasis added.)

36 That said, although the title of Directive 2006/115 refers, *in certain language versions, to the ‘rental and lending right’*, in the singular, and although, as a rule, that *directive governs jointly* the various aspects of that right which constitute the systems of rental and lending, *it nevertheless does not follow that the EU legislature necessarily intended to give the same meaning to the concepts of ‘objects’ and ‘copies’*, whether with regard to the rental system or to the lending system, including public lending within the meaning of Article 6 of that directive.

37 First, recitals 3 and 8 of that directive, in certain language versions, *do not refer to the ‘rental and lending right’ in the singular, but rather to the rental and lending ‘rights’*, in the plural.

38 Secondly, as can be seen from Article 2(1)(a) and (b) of Directive 2006/115, *the EU legislature sought to define the concepts of ‘rental’ and ‘lending’ separately. Thus the subject matter of ‘rental’ is not necessarily identical to that of ‘lending’*.

39 *It follows from the foregoing that although, as can be seen from paragraph 35 of the present judgment, intangible objects and non-fixed copies, such as digital copies, must be excluded from the rental right, governed by Directive 2006/115, so as not to be in breach of the agreed statement annexed to the WIPO Treaty, neither that treaty nor that agreed statement preclude the concept of ‘lending’, within the meaning of that directive, from being interpreted, where appropriate, as also including certain lending carried out digitally.* (Emphasis added.)

No, of course, it does not follow this “*from the foregoing*” at all. This is an excellent example for an obvious *non sequitur* inference. For what imaginable reason whatsoever might it follow from the fact that two rights are defined separately that their subject matter is identical or non-identical? There is no such reason.

Let us quote here the two definitions – under and of Article 2(1)(a) and (b) of the Rental, Lending and Related Rights Directive – fully:

1. For the purposes of this Directive the following definitions shall apply:

(a) ‘rental’ means *making available for use, for a limited period of time* and for direct or indirect economic or commercial advantage;

(b) ‘lending’ means *making available for use, for a limited period of time* and not for direct or indirect economic or commercial advantage, when it is made through establishments which are accessible to the public; (Emphasis added.)

The CJEU does not explain why and how the European legislature has chosen, according to the Court, a weird drafting method of using exactly the same term in respect of two rights but still with different meanings of that term. If the EU legislature really had intended to give different meanings to these concepts depending on whether an act is rental or lending, it definitely would have indicated it somehow. However, there is no (even the faintest pale shade of any) indication of such an intention in the articles and recitals (or in the preparatory materials) of the Directive. In contrast, everything in the text and the preparatory work of the Directive reflects the intention (which is not just an intention that could be deduced as a result of some complex interpretation, but expressed in the text adequately in an

unmistakable manner) – to use the terms “object” and “copy” with exactly the same meaning and coverage both for rental and for lending.

First of all, it should be pointed out that, in the two separate definitions – which, according to the Court, when compared, are supposed to prove that rental may only be performed in respect of tangible copies, while lending in respect of both tangible and intangible copies – there is no mention whatsoever of any subject matter; neither of “object” nor of “copy”. The two definitions are the same with the only one exception; namely from the viewpoint of the question of whether the act – described in the same manner – is made for direct or indirect economic or commercial advantage or without such advantage and through establishments accessible to the public.

The subject matter of rental and lending are *not* determined in Article 2 but in Article 3, which, under the title of “Rightholders and subject matter of rental and lending” (double emphasis added) in regard to literary and artistic works provides as follows:

1. The exclusive right to authorise or prohibit rental and lending shall belong to the following:
  - (a) the author in respect of the *original and copies* of his work; (Emphasis – in the case of the word “and”, double emphasis – added.)

When the terms “original” and “copies” are used in Article 1(1) of the Directive, it is equally crystal-clear that they have the same meaning both for rental and lending (this is obvious without any separate confirmation; in the imaginable case that the legislature wanted to use the same terms with different meanings, it certainly would have been indicated somehow; but nowhere it is):

In accordance with the provisions of this Chapter, Member States shall provide, subject to Article 6<sup>54</sup>, a right to authorise or prohibit the rental and lending of originals and copies of copyright works, and other subject matter as set out in Article 3(1). (Double emphasis added.)

Then it is the provision of Article 11(3) which pulverizes the Court’s theory that, under the Directive, lending – in contrast with rental – applies not only for tangible objects but also for intangible digital copies made available through online transmissions:

Member States may provide that the rightholders are deemed to have given their authorisation to the rental or lending of an object referred to in points (a) to (d) of Article 3(1) which is proven to have been made available to third parties for this purpose or to have been acquired before 1 July 1994.

However, in particular where *such an object* is a digital recording, Member States may provide that rightholders shall have a right to obtain an adequate remuneration for the rental or lending of that object. (Emphasis – and, to the words “rental or lending of an

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<sup>54</sup> Article 6 is on the possibilities of derogation of the application of the right of lending; it does not have any relevance for the meaning of “original”, “copy” and “object”.

object”, double emphasis – added.)

It is only in these provisions where the term “object” is used in the Directive in connection with *rental and lending* (before that, it is used also in Article 9, but it is to indicate the subject matter of the *right of distribution* in regard to related rights). “Object”, without any doubt whatsoever, is a *tangible* thing; a material thing that can be seen, held and touched.<sup>55</sup> An “object[s] referred to in point (a) of Article 3(1)”, as it is quoted above, are the originals or copies of literary and artistic works – any category of works, including books which have been concerned by the questions submitted by the referring court and by the preliminary ruling.

This means that even it is not necessary to take into account the above-mentioned provisions of the WCT and the Information Society Directive. It is clear beyond any doubt that under the Rental, Lending and Related Rights Directive itself, lending is only applicable for tangible copies as objects; it is not applicable for intangible digital copies.

If there were any doubt, it would be justified to also take into account the legislative history as reflected in the preparatory documents. However, first, there cannot be any reasonable doubt and, second, as discussed below, that history and those documents also just confirm what is obvious on the basis of the text of the Directive.

It would be sufficient to stop here, since all this shows that the Court’s theory about “e-lending” is completely badly founded. However, since the Court still have certain other arguments (even some related to the preparatory work) I still have to continue reluctantly (because those arguments are, at least, as conspicuously badly founded, as clearly in conflict with the text and meaning of the relevant EU and international norms, as those which have been discussed above).

***5.5. The CJEU’s allegation, in conflict with the relevant documents, according to which the preparatory work of the Rental, Lending and Related Rights Directive justifies the finding that lending may also be carried out in respect of intangible digital copies***

This is what the Court alleges: “The preparatory work preceding the adoption of Directive 92/100 does not support the conclusion that lending carried out in digital form should be excluded, in all cases, from the scope of that directive.”<sup>56</sup>

As pointed out above, there is no need to try to get support from the preparatory work of the Directive for the interpretation of its relevant norms. Nobody who is ready to accept and not to try to deny obvious facts – such as that “object” means tangible copies and that the Directive provides in a verbatim manner that both rental and lending may only be carried out for such copies as tangible objects – may have any reasonable doubt about this. There is no need for confirming it on the basis of the preparatory work what is obvious without any

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<sup>55</sup> Oxford dictionary: “A material thing that can be seen and touched.” (See at <https://en.oxforddictionaries.com/definition/object>.) Cambridge dictionary: “Anything that can be seen, held, or touched.” (See at <https://dictionary.cambridge.org/us/dictionary/english/object>.)

<sup>56</sup> *Stichting Leenrecht*, para. 40.

doubt on the basis of clear-cut provisions.

Irrespective of this, contrary to what the Court tries to suggest, the documents of the preparatory work do confirm that the text of the Directive is in full harmony with the intentions of the EU legislature in the sense that both the right of rental and the right of lending – and otherwise also the right of distribution – only apply for acts carried out in respect of tangible copies as material objects (in that aspect, also in harmony with the WCT as clarified in the agreed statements adopted to Articles 6 and 7 on the rights of distribution and rental).

About what follows is difficult to believe that it may be found in a judgment of the highest judicial body of the EU. In order to avoid being accused that I quote and misrepresent some of the parts in an isolated way, I quote these unbelievable paragraphs fully:

41 *It is true that the explanatory memorandum on the Proposal for a Council Directive on rental right, lending right, and on certain rights related to copyright (COM(90) 586 final) mentions the European Commission's desire to exclude the making available by way of electronic data transmission from the scope of Directive 92/100.*

42 *However, it must be noted, in the first place, that it is not evident that the Commission intended to apply such an exclusion to digital copies of books. The examples mentioned in that explanatory memorandum related exclusively to the electronic transmission of films. Moreover, at the time when that explanatory memorandum was drawn up, digital copies of books were not used to such an extent that it can validly be presumed that they had implicitly been taken into account by the Commission.*

43 *In the second place, it must be noted that the desire voiced by the Commission in that explanatory memorandum finds no direct expression in the actual text of the proposal which led to the adoption of Directive 92/100 or in that directive.*

44 *It follows from the foregoing considerations that there is no decisive ground allowing for the exclusion, in all cases, of the lending of digital copies and intangible objects from the scope of Directive 2006/115. (Emphasis – in the case of the words “examples” and “exclusively”, double emphasis – added.)*

The allegation that, there is “no direct expression in the actual text” of the intention “to exclude the making available by way of electronic data transmission from the scope of [the] Directive”, has no ground. As it is quoted and discussed above, the text of the Directive does not leave any doubt – since it is explicitly provided in it – that both rental and lending only cover acts of making available tangible copies of works as “objects”. I have used the adjective “unbelievable” above for these allegations, and I do think that it is which may adequately describe how the Court tries to qualify this provision in Article 11(3) of the Directive (quoted above) as non-existing “direct expression in the actual text”: “rental or lending of an object referred to in point (a)” (emphasis added.), where the word “object(s)”

*refers to “original or copies of works” (emphasis added; any works, also books, of course) determined as subject matter of rental and lending.*

The arguments in paragraph 42 are self-contradictory for multiple reasons. However, in order to discuss this, it is necessary to review what the explanatory memorandum<sup>57</sup> actually contains. The relevant notes in the memorandum (accompanying the draft Directive) read as follows:

*The making available for use within the meaning of paragraph 2 always refers to material objects only; this result is sufficiently supported by Article 2 paragraph 1. Therefore, the making available for use of, for example, a film by way of electronic data transmission (downloading) is not covered by this Directive.*<sup>58</sup> (Emphasis added.)

The words “making available for use within the meaning of paragraph 2” refers to the expression “making available of (copies) for a limited period of time” used equally in the definitions of the rental and lending. The word “always” is hardly suitable to be misunderstood. It means all cases, without any possible exception. In spite of any possible supernatural efforts, it cannot be denied – or even seriously pretend that it could – that this clarification applies for both rental and lending and in respect of making available of the copies of every category of works (of course, also books) without any exception whatsoever. Always.

The second sentence of paragraph 42 creates the – fully justified – impression that those who have drafted it are not aware of something that anybody else understand. Namely that, if an example is offered – even stating and stressing that it just an example – everybody on the earth may understand that it is not an exhaustive list of the phenomena or things for which the example is offered. In spite of this, the Court implicitly accuses the European Commission, and the EU legislature which agreed with this, of a major self-contradiction; namely, that after that it is clarified that rental and lending *always* – that is, beyond any doubt, *in respect of all categories of works* – only apply in case of making available tangible copies, immediately a statement follows according to which this is *exclusively true as regards films*. In contrast with this, everybody who understands plain words and simple texts can only understand the above-quoted sentences of the explanatory memorandum in the way mentioned above; “always” means always and, if an example is given of “always”, it is an example of “always” and cannot be understood as “not always” but only what is mentioned as an example clearly identified as such: an example of “always”.

However, what still follows in paragraph 42 of the judgment is a cherry, long ripened in the finest Maraschino, on the top of the cream on this funny cake. Let us read it again because it is a Guinness Record level rarity of perfect self-contradiction: “*at the time when that explanatory memorandum was drawn up, digital copies of books were not used to such an extent that it can validly be presumed that they had implicitly been taken into account by the Commission*” (emphasis added).

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<sup>57</sup> Document COM(90) final – SYN 319 of 24 January 1991 ( referred to as: explanatory memorandum).

<sup>58</sup> *Ibid.*, p. 34.

This boils down to this kind of absurd argumentation: (i) at that time digital books were not used to such an extent – if their online transmission was a perceptible phenomenon at all (it seem it was not) – that it would have been meaningful to mention them as an example; (ii) this was the reason for which this practically non-existent use of works was not mentioned as an example of works about which it was made clear that only the making available of tangible copies thereof might qualify as rental or lending (otherwise, also as distribution); (iii) therefore, it cannot be presumed that, if such use had existed at a perceptible level, it would have been implicitly taken into account. Why would it would not have been? This is one of the simplest logical inferences: *a* is always *b*; this is *a*; therefore this is *b*. The drafters of the Directive and the legislators who adopted it have made it clear that *a* (an act of rental or lending) is always *b* (always, without any exception, including any exception regarding categories of works, only qualify as rental or lending if tangible copies are made available). The fact that the memorandum only mentioned one category of works as an example obviously does not mean that only the example and not all the cases for which it is an example would have been meant.

One more comment on this argumentation is necessary. It is undeniable – and even the Court could not deny it (in particular if it also had taken into account the unmistakable provision of Article 11(3) of the Rental, Lending and Related Right Directive, as strangely it has not) – that the EU legislature intended to only provide, and in fact in the very text of the Directive it has only provided, a right of lending for making available of tangible copies. However, let us assume that the acts which the Court has characterized as “e-lending” of books are not the same as what has been regulated in the Directive in regard to all categories of works (although this assumption is contrary to all the relevant facts); and let us presume further that, therefore, the norms of the Directive do not apply for such acts (as clearly they do). Would not have been then logical for the Court to state this and just to indicate that, according to it, it would seem justified to prepare and adopt completely different norms for this case – of course, since new norms would have been involved, by those bodies of the EU which are competent to do so: by the European Parliament and the Council? It would have been not only logical but it would have been indispensable as required by the relevant rules of the TFEU on the distribution of competences between the various bodies of the Union.

#### **5.6. Two more lightly made arguments to try to prove what cannot be**

The CJEU in trying to prove that – contrary to what follows clearly from the WCT, the Information Society Directive and from the Rental, Lending and Related Rights Directive – the right of lending is also applicable for online making available of intangible digital copies, still presents the following two arguments:

45 That conclusion [namely that the right of lending should be applied for online transmissions of intangible digital copies], moreover, borne out by the objective pursued by Directive 2006/115. Recital 4 of that directive states, *inter alia*, that copyright must adapt to new economic developments such as new forms of exploitation. Lending carried out digitally indisputably forms part of those new forms of exploitation and, accordingly, makes necessary an adaptation of copyright to new economic developments.

46 In addition, to exclude digital lending entirely from the scope of Directive 2006/115 would run counter to the general principle requiring a high level of protection for authors.

47 While it is true that that general principle appears only implicitly in recital 5 of Directive 2006/115, it is nevertheless emphasised in Directive 2001/29, recital 9 of which states that any harmonisation of copyright must take as its basis ‘a high level of protection’.

48 Thus, such a general principle must be taken into account in interpreting directives which, like Directive 2006/115, are intended to harmonise the various aspects of copyright while having a more limited aim than that of Directive 2001/29.

Concerning the argument presented in paragraph 45, five comments should be made. *First*, a recital, as any other kind of preamble paragraph, indicates on the basis of what considerations the provisions of the given directive have been adopted and/or offers guidance for the interpretation and application of the provisions as adopted. The function of recital 4 of the Directive is the same. It indicates that, for the preparation and adoption of the Directive, “certain new economic developments such as new forms of exploitation” – concretely, rental and lending of copies – had been taken into account. *Second*, the statement according to which “[l]ending carried out digitally indisputably forms part of those new forms of exploitation and, accordingly, makes necessary an adaptation of copyright to new economic developments” apparently suggesting that it is a new form of exploitation that had not been taken into account and now the Court had to take it into account lacks any ground, since as quoted and analyzed above the possibility of online transmission of intangible copies (“electronic data transmission (downloading)”) had been duly taken into account and it had been made clear that such transmissions do not qualify as rental or lending. *Third*, in the WCT and in accordance with it, in the Information Society Directive, the right of interactive making available to the public has been provided which covers the acts characterized by the Court as “e-lending”; it is an exclusive right which cannot be limited in general to a mere right to remuneration; and when this right was provided, all forms of digital transmission that the Court has characterized as “new” had been taken into account. *Fourth*, if online digital transmissions of intangible digital copies could have been regarded as new forms of exploitation not yet taken into account in the EU legislation (which is obviously not the case), why not this allegedly “new” form of exploitation would not equally require the recognition of e-distribution, e-rental? (Of course, the answer, as discussed above, is that, although it is possible to characterize certain online transmissions of copies in those ways, it does not change the fact that, under the WCT and the EU Directive, these are acts of interactive making available to the public covered by an exclusive right of authorization or prohibition). *Fifth*, the Court’s theory about recital 4 implies that the competence of creating new EU norms or amend the existing ones has been transferred from the legislative bodies to the CJEU in those cases where truly new forms of exploitation emerge; at the time of the Rental, Lending and Related Rights still the Parliament and the Council had taken care of the adoption of the new norms, but from that on the CJEU is competent for this. Shall I state the level of harmony of theory with the relevant rules of the TFEU?

As regards the arguments presented in paragraph 46 to 48, it is difficult to understand for what reason could it be regarded as a higher level of protection for authors – and, of course, it should be taken into account that, under the second sentence of Article 2(6) of the Berne

Convention, and thus also under the TRIPs Agreement and the WCT, the protection of copyright applies equally in both for the authors and for their successors in title (such as in the case of books, for the publishers) – if their exclusive right of authorization or prohibition is limited to a mere right to remuneration. It is not a higher level and not the same level as provided in the Convention and the other treaties; it is a much lower level of protection, which might only be applied if there were a case where this would be in accordance with the cumulative conditions of the three-step test. These arguments of the Court are also badly founded.

### **5.7. The question of “e-lending” de lege ferenda**

This chapter is already quite voluminous already. Therefore, I try to sum up quite briefly how I can see the question of „e-lending” *de lege ferenda*.

As discussed, the acts characterized above as “e-lending” are covered by the right of online making available to the public along with the right of reproduction which is involved both when a copy is uploaded for such making available and when it is downloaded allowing the use thereof for a limited period of time. Both rights are exclusive rights of authorization. At the same, in the case of both rights it is possible – under Article 10 of the WCT and, concerning the right of reproduction, also under Article 9(2) of the Berne Convention and Article 10 of the TRIPs Agreement – to provide for exceptions and limitations in certain special cases where also the other two cumulative conditions of the three-step test are fulfilled.

If the ruling of the CJEU in *Stichting Leenrecht* is considered from this viewpoint, irrespective of the legal characterization applied by the Court, it may be regarded as corresponding to a limitation of the right of online making available to the public (and the related right of reproduction) to a mere right to remuneration. However, such a sweeping limitation covering all books without any specific conditions that would narrow its scope cannot be considered a “special case” under the test. Furthermore, it should also be taken into account that, many electronic (digital) books – the quality of which does not degrade – even during a limited time period for which they are available, may be used in a fully consumptive manner. It is also relevant that – in contrast with traditional lending which requires much more time and which is more burdensome (the patron should go to the library and should also bring it back) – online making available books accelerates repeated use of the works which may become of a massive nature. This would quite probably lead to negative impacts in the market for the rightholders and would result in conflicts with a normal exploitation of the books and in unreasonable prejudice to their legitimate interests. The problem of possible – perhaps, rather probable – circumvention of the technological measures that would be supposed to exclude making and retaining an extra copy could not either be left out from the relevant aspects to take into account.

It seems that some kind of exceptions to, or limitations of, the right of making available and the related rights for the purposes which are characterized as “e-lending” may be justified and even not necessarily only for books. However, for this, new legislative norms would be necessary to be prepared in accordance with the requirements of normal democratic

procedure of law making, including in particular the need to take into account the views and legitimate interests of all groups of interested stakeholders and all the substantial pro and con arguments. This seems indispensable to work out well-balanced and workable solutions for reasonable use of digital online technology, in accordance with the international treaties and the EU law for what is characterized as “e-lending”.

## **6. Summary: common elements of the theories about “digital exhaustion” and “e-lending”**

### **6.1. *De lege lata***

As discussed above, the “digital exhaustion” and “e-lending” theories are in conflict with the existing international, EU and national norms. What are involved are not distribution of tangible copies for which the principle of exhaustion of rights is applied and not lending of such copies, but new acts of reproduction and (interactive) making available to the public.

There is no problem if an act that is reproduction through downloading and/or (interactive) making available to the public is characterized in a different way, such as “distribution” or “lending”, as long as the different legal characterization does not change the nature and level of protection concerning the act concerned. Both the right of reproduction and the right of (interactive) making available to the public are exclusive rights. Exceptions to and limitations of these rights may be applied, but the principle of exhaustion of rights and the provisions on the right of rental (as well as on its twin right, the right of lending) only apply in the case of making available *tangible* copies (for sale = distribution; for a limited period of time and for economic or commercial advantage = rental; For a limited period of time and without economic or commercial advantage = lending).

### **6.2. *De lege ferenda***

Although both the right of reproduction and the right of (interactive) making available to the public are exclusive rights, on the basis of Article 9(2) of the Berne Convention, Article 13 of the TRIPs Agreement and Article 10 of the WCT exceptions to or limitations of both rights may be applied on the basis of the three-step test.

For this, the exception or limitation should correspond to the three cumulative conditions of the test: it should only cover a special case, it should not conflict with a normal exploitation of the works and it should not unreasonably prejudice the legitimate interests of the authors and other owners of copyright.

There are certain common aspects of online making available of intangible copies in a way that – as alleged (but this is an open question) – the number of copies does not change. In the case of what is characterized as “online exhaustion”, with the creation of a new copy through online interactive transmission, the original copy is allegedly deleted, while in the case of “lending” (but it would be logically the case also with “rental”), the new copy allegedly may not be used anymore after the expiry of a limited period of time).

As discussed above, the legal-political justifications of the exhaustion of right of distribution with the first sale of a tangible copies and the regulation of lending (or rental) of tangible copies cannot be applied directly for making available new copies through online transmission (even if the alleged deletion of the original copies truly takes place and the number of copies truly does not increase as a result of lending (or rental)). The differences may be presented in this schema (which is not a kind of mathematical formula, but it seems suitable to indicate the common and different elements of such acts from the viewpoint of the chance of the authors and other owners of rights of exploiting their works and the impact on their legitimate interests).

$\frac{q + (s + e + c)}{\text{-----} \times cv ? =}$ $g + f + p$
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In general, the unchanged *quality* of the copies (in the schema indicated by “*q*” is mentioned as a relevant difference between the transfer of property or possession of tangible copies and intangible digital copies. It truly has a role from the viewpoint of the chance of original copies to be distributed on the market by the owners of rights; irrespective of how many times through how many hands a copy is transferred its quality does not change; a “used” copy is indistinguishable from a new copy; it has the same full value as an original. It is submitted, however, that the three factors mentioned in parenthesis “(*s + e + c*)” are the truly decisive ones: the *speed*, the *ease* (or it may also stand for the level of *effort* needed) and the *cost* (in time to be used, the cost of replacement which in the case of tangible copies may be significant while in case of online transmissions it is negligible). These elements may lead to significant acceleration of subsequent uses of the same copies so much that it could undermine a normal exploitation of the works concerned or may create otherwise unreasonable prejudice to the legitimate interests of owners of rights.

The *genre* (the category) of the works concerned, and their *function* and *purpose* may also have a role from the viewpoint of such acts on the rights of authors and other owners of copyright. These are indicated under the line as *g + f + p*. In order to indicate what is meant by this, it seems appropriate to refer to the categories of works/productions concerned in the three above-mentioned court cases: computer programs, sound recordings of performances of musical works and e-books.

A computer program is like a tool and its function and purpose normally is to produce a result when included in a machine. If it may truly be guaranteed that in case of transfer of a copy the original copy is deleted, there is hardly a negative impact on the market of the programs concerned. The original owner cannot use it anymore and a new owner uses it. If the original owner needs a computer program as a tool to operate its machine, it has to obtain a new copy. There may be some other categories of works which function as kinds of tools rather than for entertainment or some other consumptive use; such examples of such works might be as dictionaries or certain databases. (Of course, this is only valid under normal circumstances; technology – such as the cloud systems – may be used, or misused, in a way which might make quick subsequent uses by altogether multiple users possible also in this case.) Music is different. It is not a tool; its purpose is entertainment and its use is more

consumptive (although not fully, since repeated use is not only possible but also typical). Films and e-books and in general electronic copies of literary and artistic works are still different. If one watches a film or reads a thriller, full consumptive use takes place; he or she normally does not need it anymore and may immediately pass over to somebody else, and the subsequent users also may do so – and all this is a quick accelerating way. All this may seriously conflict with normal exploitations of the works concerned and prejudice the legitimate interests of owners of rights. In contrast, the “e-lending” (= making available of a copy through online transmission for a limited period of time) of a scientific or scholarly work for non-commercial research may be a special case where exceptions and limitations may be justified.

Then at the end of the schema, there are the letters “cv” with a question mark. This is the indication of the current doubts about the reliability of the systems which allege to ensure that the number of copies do not increase as a result of such acts. *Circumvention* (for which the letters “cv” stand) may hardly be excluded; it may take the form of breaking the underlining technological measure or creating in some other way a back-up copy before uploading the original into the system (or allowing the expiry of the “lending” time). There are some new promises to eliminate such circumvention; one of the newest is to use the blockchain technology which serves as a basis for cryptocurrencies. It is to be noted, however, that the doubts about the guarantees against the misuse of these systems are only extra elements to be taken into account. The conflicts with the normal exploitation of certain categories of works, for the reasons discussed above, would also emerge even if the creation of extra copies could be truly safely excluded.

To sum up, as in respect of other uses of works and objects of related rights also in the case of such acts of reproduction and (interactive) online making available of works, due balancing of interests is needed, which may and should take place in accordance with the three-step test.

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