

# DIGITAL EXHAUSTION: NEW LAW FROM THE OLD WORLD

Lothar Determann<sup>†</sup>

## ABSTRACT

Ebooks, audio files, video clips, computer programs, and other digital goods have become central to our information society and sharing community. When consumers acquire digital goods, they are usually prompted to accept lengthy and complex contract terms that limit consumers' rights. Scholars and consumer protection associations are worried whether consumers still know what they buy when they click to "buy now"—apparently few do, according to a recent empirical study.<sup>1</sup> While the study was conducted in the new world, consumer protection associations in the old world were already trying cases in German courts, asserting that consumers were misled when they were invited to "buy" digital goods under contract terms that precluded any resale of digital goods. Yet, interestingly, German courts have not been sympathetic to the claims. German courts held that downloads of digital goods other than computer programs do not exhaust distribution rights; consumers cannot own digital goods they download; and, even if they did, they cannot temporarily reproduce them to sell a copy without the storage medium.

In this Article, I provide an introduction to the practical and legal dimension of digital exhaustion; examine the statutory framework in the European Union and the United States in comparison; analyze case law on both sides of Atlantic, including very recent decisions regarding digital goods that have not yet been publicized in the United States; and provide an international perspective on exhaustion across national borders. I then apply the relevant legal principles to a set of common factual scenarios and variations to illustrate the significance of the topic and provide concrete legal results as well as a well-founded policy assessment.

The rules on copyright exhaustion remain very complex and divergent in the United States and the European Union. They differ in both jurisdictions, differ between software and other works, differ depending on transaction terms, differ as to whether reproduction is permissible to sell copies separate from storage media, and differ as to whether exhaustion applies internationally. It is no wonder many consumers do not know what they "buy" when they "buy now."

From a public policy perspective, advocates of digital exhaustion can refer to consumer expectations, public access to works, freedom of commerce, and transaction privacy in favor

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1. Aaron Perzanowski & Chris Jay Hoofnagle, *What We Buy When We Buy Now*, 165 U. PA. L. REV. 315 (2017).

of digital exhaustion—allowing consumers to resell copies of digital works without a need for permission from the copyright owner. Opponents can cite to the interests of copyright owners, freedom of contract principles, and counterproductive disruptions that typically come with legislative changes or courts overruling established statutory interpretations. Worth noting is that German courts have so far largely rejected the concept of digital exhaustion and do not seem to be concerned about consumer confusion, despite the traditionally high standards of consumer protection in Germany. As the topic works through courts in the United States and both sides of the Atlantic consider legislative reform, new world courts and regulators should consider views and findings from old world cases.

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## I. INTRODUCTION

Ebooks, audio files, video clips, computer programs, and other digital goods have become central to the information society and sharing community. Consumers can buy them on disks, download copies from the web or mobile sites for a limited time or for good, or stream them on demand. In each case, they are prompted to accept lengthy and complex contract terms that limit their rights to resell, lend, or rent digital goods, move them from one device to another (say from a disk to a computer), transfer them with a device they own (be it a computer or car<sup>2</sup>), bring them with them from another country, or pass them on to their heirs.<sup>3</sup>

Technologies, marketplaces, and transaction terms are rapidly changing.<sup>4</sup> Scholars and consumer protection associations are worried whether consumers still know what they buy when they click to “buy now.”<sup>5</sup> Chris

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2. Lothar Determann & Bruce Perens, *Open Cars*, 32 BERKELEY TECH. L.J. 913, 916–17 (2017) (describing the integration of proprietary software into smart and autonomous vehicles).

3. Perzanowski & Hoofnagle, *supra* note 1, at 318 (providing Amazon’s terms for Kindle ebooks as an example).

4. See P.B. Hugenholtz, *Adapting Copyright to the Information Superhighway*, in THE FUTURE OF COPYRIGHT IN A DIGITAL ENVIRONMENT 81 (1996) (discussing the challenges that copyright was facing in the digital networked environment expected at the end of the twentieth century).

5. Perzanowski & Hoofnagle, *supra* note 1.

Hoofnagle and Aaron Perzanowski, who recently conducted an empirical study on this question, found that few consumers fully understood online transactions, and provided U.S. regulators and plaintiffs' lawyers with a road map to bringing lawsuits based on unfair competition laws to force providers of digital goods to better educate consumers about what they buy when they "buy now."<sup>6</sup> While this study was conducted in the new world, consumer protection associations were already bringing a few such cases in the old world, specifically in Germany,<sup>7</sup> a country with traditionally high consumer protection standards.<sup>8</sup> The German associations asserted in a number of complaints that consumers were misled when they were invited to "buy" digital goods under contract terms that prohibited resale. Yet, German judges have not been sympathetic to the claims. German courts held that downloads of digital goods other than computer programs do not exhaust distribution rights; consumers do not become owners of digital goods they download; and even if they did, they cannot temporarily reproduce them to sell a copy separate from the

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6. *Id.* at 361–75.

7. Oberlandesgericht Hamm [OLG Hamm] [Higher Regional Court of Hamm] May 15, 2014, ZEITSCHRIFT FÜR URHEBER UND MEDIENRECHT—RECHTSPRECHUNGSDIENST [ZUM-RD] 715, 2014 (Ger.); Oberlandesgericht Hamburg [OLG Hamburg] [Higher Regional Court of Hamburg] Apr. 12, 2014, MULTIMEDIA UND RECHT [MMR] 740, 2015 (Ger.); Oberlandesgericht Stuttgart [OLG Stuttgart] [Higher Regional Court of Stuttgart] Mar. 11, 2011, MULTIMEDIA UND RECHT [MMR] 834, 2012 (Ger.).

8. See Andreas Maurer, *Consumer Protection and Social Methods of Continental and Anglo-American Contract Law and the Transnational Outlook*, 14 IND. J. GLOBAL LEGAL STUD. 353, 368 (2007) (stating that consumer protection became dominant in Germany after the enactment of the Standard Contract Terms Act of 1976); see also Eleni Kosta, *Construing the Meaning of "Opt-Out" – An Analysis of the European, U.K. and German Data Protection Legislation*, 1 EUR. DATA PROTECTION L. REV. 16, 28, 30 (2015) (concluding that Germany applied a pro-consumer approach when implementing Article 14 of the EU Data Protection Directive); Oliver Förster & Osama Almughrabi, *Managing the Conflict Between U.S. E-Discovery and the German Data Protection Act*, 36 HASTINGS INT'L & COMP. L. REV. 111 (2013); Klaus Tonner & Kathleen Fangerow, *Directive 2011/83/EU on Consumer Rights: A New Approach to European Consumer Law?*, 1 J. EUR. CONSUMER & MKT. L. 67, 76 (2012) (providing an example of how the implementation of EU Consumer Protection Directive 2011/83/EU decreased strong, preexisting German existing consumer protection standards); Dagmar Coester-Waltjen, *Consumer Protection and General Business Terms*, 3 J. EUR. CONSUMER & MKT. L. 160 (2014) (discussing EU and German law on unfair contract terms); Press Release, Verbraucherzentrale Bundesverband, WhatsApp Must Provide Terms and Conditions in German (May 17, 2016), [http://www.vzbv.de/sites/default/files/en\\_kom\\_2016-05-13\\_pm\\_whatsapp\\_ibu.pdf](http://www.vzbv.de/sites/default/files/en_kom_2016-05-13_pm_whatsapp_ibu.pdf) (describing how a German consumer protection association won a lawsuit against the messenger service WhatsApp which required WhatsApp's terms and conditions to be provided in German).

storage medium.<sup>9</sup> The Court of Justice of the European Union (CJEU) has seemed more sympathetic to digital exhaustion, but has so far issued only two decisions with limited scope, one regarding enterprise software and another one regarding national legislatures' right under EU law to permit online lending of ebooks by public libraries.<sup>10</sup> The divergence of court decisions, the confusion in the marketplace, the complexity of the topic, and the controversies among scholars warrants a closer look at the current state of the law on digital exhaustion in the new and old worlds.

#### A. SCENARIOS AND VARIATIONS

To keep a concrete focus, this Article will address three common scenarios with variations. First, a consumer buys digital goods on a low-cost storage medium (such as a USB drive or a CD). Second, a consumer buys a brand-new computer or car with digital goods preinstalled. Third, a consumer purchases digital goods online and downloads copies to a CD, USB drive, computer, or car. As a variation to all three scenarios, the consumer does not outright buy the digital items for good, but lends, rents, or streams them for a limited period of time. And, as a further variation, the consumer obtains their copies on one side of the Atlantic and wants to dispose of them on the other side.

#### B. KEY QUESTIONS

In all scenarios and variations, the consumer would like to resell, lend, rent, or stream the digital goods when she is done with them. Ideally, the consumer would like to be able to transfer an electronic copy. But in some cases, a consumer may also be prepared to transfer her digital goods with a device on which the copies are stored, such as a CD, USB drive, computer, or car. Whether she may do as she wants to can depend on specifics of her contract, but usually also on the answer to two key questions concerning digital exhaustion: (1) Does the consumer own the copies? (2) Is the consumer permitted to create a temporary, separate copy of her digital goods on a new

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9. Oberlandesgericht Hamm [OLG Hamm] [Higher Regional Court of Hamm] May 15, 2014, ZEITSCHRIFT FÜR URHEBER UND MEDIENRECHT—RECHTSPRECHUNGSDIENST [ZUM-RD] 715 (721, 725), 2014 (Ger.); Oberlandesgericht Hamburg [OLG Hamburg] [Higher Regional Court of Hamburg] Apr. 12, 2014, MULTIMEDIA UND RECHT [MMR] 740 (741, 743), 2015 (Ger.); Oberlandesgericht Stuttgart [OLG Stuttgart] [Higher Regional Court of Stuttgart] Mar. 11, 2011, MULTIMEDIA UND RECHT [MMR] 834 (835), 2012 (Ger.); Oberlandesgericht Stuttgart [OLG Stuttgart] [Higher Regional Court of Stuttgart] Mar. 11, 2011, MULTIMEDIA UND RECHT [MMR] 834 (835), 2012 (Ger.).

10. Case C-128/11, *UsedSoft GmbH v. Oracle Int'l Corp.*, 2012 E.C.R. I-0000, 2012 O.J. (C 287) 16; Case C-174/15, *Vereniging Openbare Bibliotheken v. Stichting Leenrecht*, 2016 EUR-Lex CELEX LEXIS 62015CJ0174 (Nov. 10, 2016).

storage medium so she can sell them without the medium on which they are currently stored?

C. ROADMAP TO ANSWERS

To answer the key questions regarding the scenarios, variations, and broader topic of digital exhaustion laid out in Part I, this Article will examine the current statutory framework in the European Union and United States in Part II, review old law regarding books and records in Part III, proceed to software cases in Part IV, introduce new law on exhaustion pertaining to online downloads of digital goods other than software in Part V, and revisit principles on territoriality and international exhaustion in Part VI. Then, this Article presents answers to the key questions Part VII and subjects them to a critical assessment from a policy perspective in Part VIII. Part IX briefly concludes.

## II. COPYRIGHT EXHAUSTION ACCORDING TO U.S. AND EU STATUTORY LAW

U.S. courts conceived the exhaustion principle first in the patent context in 1873,<sup>11</sup> then with respect to copyrights and book sales in 1908.<sup>12</sup> Courts coined, and still use, the term “first sale doctrine” even though not only sales, but also gifts, can exhaust distribution rights.<sup>13</sup> Congress adopted the doctrine quickly into the U.S. Copyright Act in 1909<sup>14</sup> and amended it a few times to its present form.<sup>15</sup> In Europe, courts and statutes tend to refer to “exhaustion” and apply harmonized principles set forth in EU Directives.<sup>16</sup> A brief summary sets the stage for a review of the diverging cases in the new and old worlds.

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11. *See* *Adams v. Burke*, 84 U.S. 453, 456 (1873).

12. *See* *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350–51 (1908).

13. PAUL GOLDSTEIN, *GOLDSTEIN ON COPYRIGHT*, § 7.6.1 n.4 (3d ed. Supp. 2017) (“[A] gift of copies or phonorecords will qualify as a ‘first sale’ to the same extent as an actual sale for consideration.”).

14. *See* Copyright Act of 1909, Pub. L. No. 60-349, § 41, 35 Stat. 1075 (repealed 1976).

15. *See* 17 U.S.C. § 109 (2012).

16. *See* 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, art. 4(2), 2001 O.J. (L 167) 10 [hereinafter *EU Copyright Directive*]; Directive 2009/24/EC of the European Parliament and of the Council of April 23, 2009 on the Legal Protection of Computer Programs, art. 4(2), § 17(2), 2009 O.J. (L 111) 16 [hereinafter *EU Software Directive*]; *see also* URHEBERRECHTSGESETZ [URHG] § 69(3) (1965) (Ger.) [hereinafter *German Copyright Act*].

A. UNITED STATES COPYRIGHT ACT

Under the U.S. Copyright Act, copyright owners have the exclusive right to reproduce the copyrighted work, make derivative works based upon it, distribute copies of the work, and display it publicly.<sup>17</sup> But “the owner of a particular copy or phonorecord lawfully made under this title . . . is entitled . . . to sell or otherwise dispose of the possession of that copy or phonorecord.”<sup>18</sup> The owner of a copy may also freely rent or lend her copy, except with respect to phonograms and software.<sup>19</sup> The owner of a copy may generally not reproduce or adapt her copy, except a software copy where this is necessary “as an essential step in the utilization of the computer program,” subject to a number of limitations.<sup>20</sup>

B. EU DIRECTIVES AND GERMAN COPYRIGHT ACT

Under EU Directives and German national law, copyright owners have the exclusive right to reproduce, distribute, and communicate the protected work to the public.<sup>21</sup> The EU Copyright Directive provides that “[t]he distribution right shall not be exhausted within the Community in respect of the original or copies of the work, except where the first sale or other transfer of ownership in the Community of that object is made by the rightholder or with his consent.”<sup>22</sup> Similarly, under the EU Software Directive “[t]he first sale in the Community of a copy of a program by the rightholder or with his consent shall exhaust the distribution right within the Community of that copy, with the exception of the right to control further rental of the program or a copy thereof.”<sup>23</sup> As under U.S. law, owners of copies have only very limited

17. See 17 U.S.C. § 106 (2012).

18. 17 U.S.C. § 109(a) (2012).

19. See 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT §§ 8.12(C), 8.12(C)(1), 8.12(D)(1)(a) (2005).

20. 17 U.S.C. § 117(a)(1) (2012). See Aaron Perzanowski & Jason Schultz, *Reconciling Intellectual and Personal Property*, 90 NOTRE DAME L. REV. 1211, 1225 (2015) (describing how software works have broader adaptation and reproduction rights under the fair use doctrine and other theories); see also Aaron Perzanowski & Jason Schultz, *Legislating Digital Exhaustion*, 29 BERKELEY TECH. L.J. 1535, 1547 (2014).

21. EU Copyright Directive, *supra* note 16, art. 2, art. 3(1), art. 4(1); see also *German Copyright Act*, *supra* note 16, §§ 15(1)(2), 16, 17, 18, 19, 19a, 20, 21, 22.

22. EU Copyright Directive, *supra* note 16, art. 4(2); see also *German Copyright Act*, *supra* note 16, § 17(2) (“Where the original or copies of the work have been brought to the market by sale with the consent of the person entitled to distribute them within the territory of the European Union or another state party to the Agreement on the European Economic Area, their dissemination shall be permissible, except by means of rental.”).

23. EU Software Directive, *supra* note 16, art. 4(2); see also *German Copyright Act*, *supra* note 16, § 69(c)(3) (“Where a copy of a computer program is brought to the market with the



reproduction and adaptation rights under EU law.<sup>24</sup> An owner of copyrights under EU law has exclusive rental rights,<sup>25</sup> which are not exhausted upon first sale.<sup>26</sup> Also, as a matter of EU law, the copyright owner has exclusive “public” lending rights,<sup>27</sup> which, like the rental right, are not exhausted by first sale.<sup>28</sup> But, EU law permits derogations under national copyright law with respect to exhaustion of public lending rights.<sup>29</sup> The German legislature, for example, enacted an exemption: under German copyright law, a first sale regarding a particular copy<sup>30</sup> exhausts public lending rights;<sup>31</sup> the copyright owner is

rightholder’s consent in the area of the European Union or another state party to the Agreement on the European Economic Area by sale, the right of distribution shall exhaust in respect of this copy, with the exception of the rental right . . .”).

24. *See, e.g., German Copyright Act, supra* note 16, § 53(2) (permitting the reproduction of single copies, “for one’s own scientific use,” “for one’s own personal information concerning current affairs if the work was broadcasted,” and for other personal use with regards to “small parts of a released work or individual articles being released in newspapers or periodicals” or where the work “has been out of print for at least two years”).

25. *See* 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, art. 1(1), 3(1), 2006 O.J. (L 376) 28 [hereinafter *EU Rental Directive*].

26. *See id.* art. 1(2). The German Copyright Act states:

[W]here the original or copies of the work have been brought to the market by sale with the consent of the person entitled to distribute them within the territory of the European Union or another state party to the Agreement on the European Economic Area, their dissemination shall be permissible, except by means of rental.

*German Copyright Act, supra* note 16, § 17(2).

27. *See EU Rental Directive, supra* note 25, art. 1(1), 3(1). This lending right is “public” in the sense that “lending” means “making available for use . . . when it is made through establishments which are accessible to the public.” *Id.* art. 2(1)(b).

28. *See id.* art. 1(2). This exhaustion rule applies only to the “public” lending right in the sense of the EU Rental Directive. An owner of a book can lend it to a friend in a private setting because this does not affect the copyright owner’s ‘public’ lending right. *See id.*

29. *See id.* art. 1(1) (“In accordance with the provisions of this Chapter, Member States shall provide, subject to Article 6, 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)”; *id.* art. 6(1) (“Member States may derogate from the exclusive right provided for in Article 1 in respect of public lending, provided that at least authors obtain a remuneration for such lending.”).

30. *See German Copyright Act, supra* note 16, § 17(2) (which only excludes the copyright owner’s rental right from exhaustion by first sale); *see also* THOMAS DREIER, GERNOT SCHULZE & LOUISA SPECHT, URHEBERRECHTSGESETZ: URHEBERRECHTSWAHRNEHMUNGSGESETZ, KUNSTURHEBERGESETZ: KOMMENTAR § 17 ¶ 25, 52 (5th ed. 2015) [hereinafter DREIER ET AL., URHG].

31. *See German Copyright Act, supra* note 16, § 17(2) (excluding only the copyright owner’s rental right from exhaustion by first sale); *see also* DREIER ET AL., URHG § 17 ¶ 25, 52.

entitled to remuneration if copies are lent publicly, for example, by a state-owned library.<sup>32</sup> As under U.S. law, exceptions apply under EU law with respect to software copies: owners of software copies may not rent them,<sup>33</sup> but they have the right to reproduce and alter their copy as necessary to operate the program.<sup>34</sup>

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32. See *German Copyright Act*, *supra* note 16, § 27(2). When a private owner of the copy lends it to a friend, however, the original owner can do that without paying the copyright owner a remuneration fee. See *id.* § 17(3). Instead, payment is due only when the transfer “directly or indirectly serves profit-making purposes.” *Id.*

33. See *EU Software Directive*, *supra* note 16, art. 4(1)(c) (“Subject to the provisions of Articles 5 and 6, the exclusive rights of the rightholder within the meaning of Article 2 shall include the right to do or to authorise: . . . (c) any form of distribution to the public, including the rental, of the original computer program or of copies thereof.”); *id.* art. 4(2) (“The first sale in the Community of a copy of a program by the rightholder or with his consent shall exhaust the distribution right within the Community of that copy, with the exception of the right to control further rental of the program or a copy thereof.”). Thus, under the EU Software Directive, software owners are free to resell or give away their software copy. They can also lend the software copy to someone else, but they cannot rent it since the exclusive rental right of the copyright owner is not affected by first sale but remains with the copyright owner. See also *German Copyright Act*, *supra* note 16, § 69(c)(3). The Act states:

The rightholder shall have the exclusive right to perform or authorise the following acts: . . . any form of distribution of the original of a computer program or of copies thereof, including rental. Where a copy of a computer program is brought to the market with the rightholder’s consent in the area of the European Union or another state party to the Agreement on the European Economic Area by sale, the right of distribution shall exhaust in respect of this copy, with the exception of the rental right . . .

*Id.* Thus, consistent with the provisions of the EU Software Directive, the German Copyright Act provides for an exhaustion of the copyright owner’s lending right, but not with regards to his rental right. See also DREIER ET AL., URHG § 69(c) ¶ 19.

34. See *EU Software Directive*, *supra* note 16, art. 5(1). The Directive states:

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.

*Id.*; see also *id.* art. 4(1). The Directive states:

Subject to the provisions of Articles 5 and 6, the exclusive rights of the rightholder within the meaning of Article 2 shall include the right to do or to authorise: (a) the permanent or temporary reproduction of a computer program by any means and in any form, in part or in whole; in so far as loading, displaying, running, transmission or storage of the computer program necessitate such reproduction, such acts shall be subject to authorisation by the rightholder; (b) the translation, adaptation, arrangement and any other alteration of a computer program and the

C. FUNDAMENTAL SIMILARITIES IN U.S. AND EUROPEAN COPYRIGHT LAW

In the United States and in Europe, copyright law distinguishes between ownership of copyrights and ownership of the original or copies of a work. An author must fix the work in tangible or electronic form in order to acquire copyrights in the work.<sup>35</sup> Upon fixation, copyright ownership attaches to the work separately from its original embodiment (such as a manuscript or painting). If the author sells her original work or a copy, the author does not automatically convey ownership of her copyrights, only ownership of the copy sold.<sup>36</sup> Ownership of copies under copyright law does not have to coincide with ownership of the medium on which a copy is stored: You can own a computer on which a lawfully rented video clip or an unlawfully pirated ebook copy resides, which you do not own.

Both under U.S. and EU copyright law, the owner of an authorized copy of a work is entitled to resell her copy. If the copyright owner authorized the creation and first sale of the copy, her consent to a resale is not required. A threshold question, then, is what types of commercial transactions convey ownership of a copy for purposes of copyright law?<sup>37</sup> In a sales transaction,

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reproduction of the results thereof, without prejudice to the rights of the person who alters the program.

*Id.*; see also *German Copyright Act*, *supra* note 16, § 69(d)(1). The German Copyright Act states:

Unless provided otherwise by special contractual provisions, the acts referred to in section 69c, numbers 1 and 2, shall not require authorisation by the rightholder if they are necessary for the use of the computer program in accordance with its intended purpose, including for error correction, by any person authorised to use a copy of the program.

*Id.*; *id.* § 69(c)(1)–(2). This portion of the Act states:

The rightholder shall have the exclusive right to perform or authorise the following acts: 1. the permanent or temporary reproduction, in whole or in part, of a computer program by any means and in any form. Insofar as loading, displaying, running, transmission or storage of the computer program necessitates such reproduction, these actions shall be subject to authorisation by the rightholder; 2. the translation, adaptation, arrangement and other modifications of a computer program, as well as the reproduction of the results thereof. The rights of those persons who adapt the program shall remain unaffected . . . .

*Id.*

35. See NIMMER & NIMMER, *supra* note 19, § 2.03(B).

36. Perzanowski & Schultz, *supra* note 20, at 1217–18.

37. Lothar Determann & Aaron Xavier Fellmeth, *Don't Judge a Sale by Its License: Software Transfers Under the First Sale Doctrine in the United States and the European Community*, 36 U.S.F. L.

the seller receives a lump sum payment and the buyer receives perpetual possession of the item sold. Sales are presumed to convey ownership and resale rights.<sup>38</sup> In a gift transaction, the giver transfers perpetual possession and ownership without consideration; gifts are also presumed to convey ownership.<sup>39</sup> In a lease or loan, on the other hand, the transfer of possession is time-limited and ownership does not transfer.<sup>40</sup>

The term “license” has different meanings. It can refer to a type of commercial transaction that confers reproduction rights in consideration for royalty payments.<sup>41</sup> The term “license” can also be used as another word for “permission.” In the latter case, a “license” or “permission” is not a type of commercial transaction, but an item of value that one can sell, loan, or rent, or grant ancillary to a sale, lease, or rental arrangement. The existence of a license in the sense of “permission” does not infer a presumption or evidence of a sale or transfer of ownership.<sup>42</sup>

Ownership grants exclusion rights universally against anyone, whereas commercial transactions are negotiated between parties.<sup>43</sup> If parties to a commercial transaction agree that ownership to an item shall not transfer, then it generally will not, unless their contracting freedom is overridden by mandatory laws against contracts of adhesion, unconscionable contracts, unfair consumer contracts, or unreasonable restraints on alienation.<sup>44</sup>

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REV. 1, 8–22 (2001) (comparing sale and ownership jurisprudence for tangible property, traditional copyrighted works, and software).

38. *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1108 (9th Cir. 2010) (“If the copyright owners’ initial transfers . . . were first sales, then the defendant’s resales were protected by the first sale doctrine and thus were not copyright infringement.”); *Wall Data Inc. v. L.A. Cty. Sheriff’s Dep’t*, 447 F.3d 769, 785 n.9 (9th Cir. 2006) (“By licensing copies of their computer programs, instead of selling them, software developers maximize the value of their software, minimize their liability, control distribution channels, and limit multiple users on a network from using software simultaneously.”); *DSC Commc’ns Corp. v. Pulse Commc’ns, Inc.*, 170 F.3d 1354, 1360 (Fed. Cir. 1999) (recognizing that a sale transfers ownership).

39. *UMG Recordings v. Troy Augusto*, 628 F.3d 1175, 1182 (9th Cir. 2011).

40. *United States v. Wise*, 550 F.2d 1180, 1191, 1192 (9th Cir. 1977); *Vernor*, 621 F.3d at 1107; *see also* *Determann & Fellmeth*, *supra* note 37, at 20; *Lease*, BLACK’S LAW DICTIONARY (10th ed. 2014).

41. *See* *Determann & Fellmeth*, *supra* note 37, at 13, 20.

42. *See id.*

43. *Compare Loan*, BLACK’S LAW DICTIONARY (10th ed. 2014) (“[A] grant of something for temporary use.”), *with Own*, BLACK’S LAW DICTIONARY (10th ed. 2014) (“[T]o have legal title to.”).

44. *See* Harold C. Havighurst, *Limitations Upon Freedom of Contract*, 1979 ARIZ. ST. L.J. 167, 172 (1979).

Based on these basic rules of U.S. and EU copyright law, consumers must answer two of the three questions introduced above<sup>45</sup> to determine if and how they can resell their digital goods: (1) Do I own my copy? (2) May I create a temporary, separate copy of my digital good on a new storage medium so I can sell my it without the medium on which my copy happens to be stored (such as a CD, USB drive, computer, or car)?<sup>2</sup> To develop answers to these two questions with respect to the scenarios and variations introduced above,<sup>46</sup> Parts II through V of this Article will review old and new cases from both sides of the Atlantic.

### III. COPYRIGHT EXHAUSTION CASES REGARDING TANGIBLE BOOKS AND MUSIC RECORDS

#### A. BOOKS

Booksellers do not usually require customers to sign complex contracts. In a bookstore, customers lay down their money and take their book. They then own the book and can resell, rent, or lend it.<sup>47</sup> When a book publisher tried to impose license terms on book sales to control resale pricing, the U.S. Supreme Court stepped in and postulated the first sale doctrine for copyrights in 1908.<sup>48</sup> Since then, books have been sold and resold without much controversy on either side of the Atlantic.<sup>49</sup>

#### B. MUSIC ON DISKS

Music stores followed booksellers for most of their history. They sold vinyl records, audiotapes, CDs, DVDs, and Blu-ray disks like books, without elaborate contracts. Equally, consumers have been reselling their copies. Controversies have been rare, with a few exceptions such as *UMG Recordings v. Troy Augusto*.<sup>50</sup> UMG tried to enjoin the resale of promotional CDs with sound recordings that UMG had sent free of charge to music critics subject to a unilateral notice “Promotional Use Only - Not for Sale.”<sup>51</sup> Augusto was not an

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45. See *infra* Section I.B.

46. See *infra* Section I.A.

47. See 17 U.S.C. § 109(a) (2012) (guaranteeing these rights in the United States); Copyright, Designs and Patents Act, 1988, c. II, § 18(3)(a) (guaranteeing these rights in the United Kingdom); *German Copyright Act*, *supra* note 16, § 17(2) (guaranteeing these rights in Germany); *EU Copyright Directive*, *supra* note 16, art. 4(2) (guaranteeing these rights in the EU).

48. *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350–51 (1908).

49. Cross-border sales, however, have recently created controversy. See *Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U.S. 519 (2013).

50. *UMG Recordings v. Troy Augusto*, 628 F.3d 1175 (9th Cir. 2011).

51. *Id.* at 1177. Some disks contained a more elaborate notice:

intended recipient of those CDs, but acquired the CDs and sold them through online auctions at ebay.com.<sup>52</sup> The court held that UMG's exclusive copyright was exhausted because the distribution of the promotional CDs effected a sale or gift.<sup>53</sup> It found no valid license agreement that could have overcome the presumption of a sale or gift, because UMG could not prove that recipients of the promotional CDs expressly or impliedly agreed to any license terms that could have negated a sale or gift.<sup>54</sup> "[T]ransfer of possession to the recipients, without meaningful control or even knowledge of the status of the CDs after shipment, accomplished a transfer of title."<sup>55</sup> Moreover, under the Unordered Merchandise Statute, 39 U.S.C. § 3009 (2012), recipients have the right to dispose of the CDs as they see fit.<sup>56</sup> Courts in the EU would presumably find for exhaustion also under these circumstances, although similar cases do not seem to have been brought. In the U.S., however, the Court of Appeals for the Ninth Circuit had to distinguish *UMG* from software cases. In software cases, U.S. courts tend to defer to the copyright owners' unilateral license terms, including in *Vernor v. Autodesk*<sup>57</sup>—a case decided by the Ninth Circuit around the same time as *UMG*—and in *Wall Data v. L.A. County Sheriff's Department*,<sup>58</sup> a case it decided only a few years before.<sup>59</sup>

### C. SUMMARY

With respect to books and music disks, consumers can answer most questions pertaining to copyright exhaustion and resale rights easily and clearly, whether they are in the United States or in the European Union. Consumers own their copies and can resell them. They do not need—and must not make—any copies for resale purposes. In practice, consumers rarely have to worry about contractual restrictions on their resale rights, because publishers, booksellers, and music stores do not tend to require consumers to execute

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This CD is the property of the record company and is licensed to the intended recipient for personal use only. Acceptance of this CD shall constitute an agreement to comply with the terms of the license. Resale or transfer of possession is not allowed and may be punishable under federal and state laws.

*Id.* at 1182.

52. *Id.* at 1178.

53. *Id.* at 1183.

54. *Id.* at 1180.

55. *Id.* at 1182.

56. *Id.* at 1180.

57. *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1110 (9th Cir. 2010).

58. *Wall Data Inc. v. L.A. Cty. Sheriff's Dep't*, 447 F.3d 769, 785 n.9 (9th Cir. 2006).

59. *UMG Recordings*, 628 F.3d at 1181, 1183.

contracts when they purchase books or music disks. A variety of restrictions apply regarding lending and renting.

#### IV. SOFTWARE COPYRIGHT CASES IN THE U.S. AND IN THE EU

Software is different in many respects from books.<sup>60</sup> Software is valuable not for its creativity or originality but for its functionality, which is normally carved out from copyright protection in the U.S.<sup>61</sup> and the EU.<sup>62</sup> Yet copyright law has become the primary intellectual property regime for software in the U.S. and Europe.<sup>63</sup> Both the U.S. and the EU treat software copies differently from copies of other copyrightable works,<sup>64</sup> but U.S. and EU courts apply the first sale doctrine very differently from each other with respect to software copies.

##### A. U.S. CASES

In the United States, Congress covered software by copyright with the Computer Software Copyright Act of 1980.<sup>65</sup> Source and object code is protected as a “literary work”<sup>66</sup> and, as such, is subject to the same protections and limitations, including the first sale doctrine.<sup>67</sup> However, where the traditional medium for literary works, such as paperback novels, can be lent out by libraries, Congress saw the risk of libraries lending out valuable software to customers who could then make their own copies and subsequently return the software to the library without ever having paid for it. Therefore, Congress

60. See Christian H. Nandan, *Software Licensing in the 21st Century: Are Software “Licenses” Really Sales, and How Will the Software Industry Respond?*, 32 AIPLA Q.J. 555, 561–63 (2004) (describing how “[s]oftware is fundamentally different than most copyrighted works” because using software requires constantly making new copies of it).

61. 17 U.S.C. § 102(b) (2012).

62. *EU Software Directive*, *supra* note 16, art. 1.2.

63. See Lothar Determann & David Nimmer, *Software Copyright’s Oracle from the Cloud*, 30 BERKELEY TECH. L.J. 161, 165–72 (2015); see also Peter S. Menell, *Tailoring Legal Protection for Computer Software*, 39 STAN. L. REV. 1329, 1354 (1987). See generally Pamela Samuelson, *Comparing U.S. and EC Copyright Protection for Computer Programs: Are They More Different Than They Seem?*, 13 J.L. & COM. 279 (1994) (providing an overview of software copyright protection in the EU).

64. See Part II regarding rental, lending, reproduction and adaptation rights.

65. Act of Dec. 12, 1980, Pub. L. No. 96-517, § 10, 94 Stat. 3028. See also MARK A. LEMLEY, PETER S. MENELL, ROBERT P. MERGES & PAMELA SAMUELSON, *SOFTWARE AND INTERNET LAW* 38–45, 97–98 (1st ed. 2000) (discussing how courts afforded protection to computer programming).

66. See 17 U.S.C. § 101 (2012).

67. *Apple Comput., Inc. v. Franklin Comput. Corp.*, 714 F.2d 1240, 1249 (3d Cir. 1983).

carved out lending and rental of software copies from exhaustion in the Computer Software Rental Amendments Act of 1990.<sup>68</sup> Owners of software copies may resell their copies according to today's U.S. Copyright Act, but may not lend or rent them out.<sup>69</sup> In practice, however, software companies have done their utmost to prevent resales, too. They have applied shrinkwrap, click-through, and other software license terms to all software transactions, characterizing transactions as "licenses" and have largely prevailed in U.S. courts with their position that the first sale doctrine should not apply to the distribution of software copies on CDs, even if the acquirer pays a lump sum and acquires perpetual possession of a software copy.<sup>70</sup> Courts have found it irrelevant that ownership of the CD carrying the software copy does transfer, given the relatively insignificant value of the carrier medium.<sup>71</sup> U.S. courts have largely deferred to contract terms unilaterally imposed by software companies to determine whether end users become owners of their software copies.<sup>72</sup> Unauthorized software resellers have prevailed with assertions of the first sale doctrine only in situations where the software companies were unable to prove license contract formation and, thus, the first sale doctrine applied by default.<sup>73</sup>

In most U.S. cases regarding software and exhaustion, copyright owners tried to prevent the resale of software on disks or other carriers of insignificant

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68. See Computer Software Rental Amendments Act of 1990, Pub. L. No. 101-650, §§ 801–02, 104 Stat. 5089; Kenneth R. Corsello, *The Computer Software Rental Agreements Act of 1990: Another Bend in the First Sale Doctrine*, 41 CATH. U. L. REV. 177, 180 (1991) ("The Computer Software Rental Amendments Act of 1990 (Software Act) created an exemption from the first sale doctrine for the rental of computer software. This exemption gives the owners of software copyrights control over the rental of their programs by making it a copyright violation to rent computer software without the permission of the copyright owner?").

69. 17 U.S.C. § 109(b) (2012).

70. See Determann & Nimmer, *supra* note 63, at 172–80. *But see* NIMMER & NIMMER, *supra* note 19, § 8.12(B)(1)(d)(i)(III); *SoftMan Prods. Co. v. Adobe Sys. Inc.*, 171 F. Supp. 2d 1075, 1085, 1087 (C.D. Cal. 2001) (examining "the substance of the transaction at issue" and concluding that it "is a sale and not a license").

71. *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1110 (9th Cir. 2010).

72. *Id.*; see, e.g., *Wall Data Inc. v. L.A. Cty. Sheriff's Dep't*, 447 F.3d 769, 785 n.9 (9th Cir. 2006); *DSC Commc'ns Corp. v. Pulse Commc'ns, Inc.*, 170 F.3d 1354, 1360–62 (Fed. Cir. 1999); *MAI Sys. Corp. v. Peak Comput., Inc.*, 991 F.2d 511, 518 (9th Cir. 1993); *Data Prods., Inc. v. Reppart*, 18 U.S.P.Q.2d 1058, 1601 (D. Kan. 1990); *ISC-Bunker Ramo Corp. v. Altech, Inc.*, 765 F. Supp. 1310, 1314 (N.D. Ill. 1990); *Davidson & Assocs., Inc. v. Internet Gateway*, 334 F. Supp. 2d 1164, 1177 (E.D. Mo. 2004); *Microsoft Corp. v. Harmony Computers & Elecs., Inc.*, 846 F. Supp. 208, 213 (E.D.N.Y. 1994); *Novell, Inc. v. Network Trade Ctr., Inc.*, 25 F. Supp. 2d 1218, 1230 (D. Utah 1997).

73. See *Adobe Sys. v. Christenson*, 809 F.3d 1071, 1080 (9th Cir. 2015); *Softman Prods.*, 171 F. Supp. 2d at 1085.



value, not the resale of computers or cars delivered with preinstalled software. In *DSC v. Pulse*, DSC tried to prevent its competitor Pulse from selling devices on which telecommunications companies could upload and run DSC software.<sup>74</sup> DSC sold its systems to telecommunications companies under agreements that transferred title only to hardware and provided that software copies were only licensed.<sup>75</sup> The U.S. Court of Appeals for the Federal Circuit decided that users of DSC's systems were not allowed under Section 117 of the U.S. Copyright Act to copy DSC's software onto interoperable devices purchased from Pulse, because DSC effectively reserved ownership to all of its software copies.<sup>76</sup> But, the court found that Pulse was allowed under Section 117 of the U.S. Copyright Act to execute—and thus copy—DSC's software on systems made by DSC, which Pulse had purchased “on the open market,” thereby apparently assuming that the first sale doctrine must have exhausted DSC's rights to software copies preinstalled on DSC hardware.<sup>77</sup>

Copyright owners regularly reserve ownership to software copies preinstalled on computers, smartphones, cars, and other devices in end-user license terms, but in practice, they have not sued consumers based on copyright law to prevent them from reselling software copies on valuable devices.<sup>78</sup> Consumers are routinely reselling used automobiles, computers and other devices with preinstalled software copies, which are only licensed, not sold by the copyright owner.

#### B. EU AND GERMAN CASES

European courts have taken very different views in determining whether software transactions qualify as a sale.<sup>79</sup> German courts have tended to find sales and exhaustion in all situations where copyright owners parted with copies for good and for a lump sum payment, regardless of whether the copyright owner tried to impose unilateral license terms.<sup>80</sup> The CJEU has generally been skeptical of copyright law, given copyright law's territoriality

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74. *DSC Commc'ns*, 170 F.3d at 1357.

75. *Id.* at 1361–62.

76. *Id.* at 1362.

77. *Id.* at 1363.

78. John A. Rothchild, *The Incredible Shrinking First-Sale Rule: Are Software Resale Limits Lawful?*, 57 RUTGERS L. REV. 1, 22–50 (2004).

79. See Determann & Fellmeth, *supra* note 37, at 105; see also Lothar Determann, *Importing Software and Copyright Law*, 30 COMPUTER & INTERNET LAW. 32, 34–35 (2013).

80. See Lothar Determann, *Notice, Assent Rules for Contract Changes After Douglas v. U.S. District Court*, 12 ELECTRONIC COM. & L. REP. (BNA) 32, 37 (2007); James R. Maxeiner, *Standard-Terms Contracting in the Global Electronic Age: European Alternatives*, 28 YALE J. INT'L L. 109, 167 (2003) (describing German software licensing regimes).

and the CJEU's mission to drive forward the European economic unification and cross border trade within the Common Market.<sup>81</sup>

In *UsedSoft v. Oracle*,<sup>82</sup> Oracle Corporation, a software copyright owner, tried to prevent UsedSoft GmbH from reselling copies of Oracle software that UsedSoft acquired from charities, universities, and other licensees. These organizations had acquired (by download or disk) Oracle software under elaborate license agreements, either at significant discounts or with more licenses than necessary due to Oracle's "license block" pricing practice.<sup>83</sup> For example, this practice requires that a licensee who has twenty-seven users would need to purchase two twenty-five-user licenses.<sup>84</sup> UsedSoft acquired the unused portions of the licenses and marketed them to customers who already had possession of Oracle's software copies and merely needed supplemental licenses for additional users.<sup>85</sup> Customers who did not already have possession of Oracle's software were able to download the software from Oracle's website after purchasing the license from UsedSoft.<sup>86</sup> The CJEU held that a software copyright owner may not prevent the resale of software copies that are downloaded over the Internet with the copyright owner's consent.<sup>87</sup> This holding applies even if the initial acquirer is a business or other sophisticated legal entity and expressly agreed with the software copyright owner that the software copies are licensed only to the initial acquirer and shall not be resold.<sup>88</sup> Thus, any transfer of possession without a time limit for a lump sum fee constitutes a sale within the meaning of the first sale doctrine.<sup>89</sup> The CJEU also held that anyone who lawfully acquires a software copy (from the rightholder with their consent or from a secondary distributor after exhaustion) on a disk, on a computer, by way of download, or otherwise, may make an additional copy for purposes of selling such additional copy, so long as the original software copy is deleted or rendered unusable.<sup>90</sup> Moreover, the CJEU noted

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81. See Determann, *supra* note 80, at 34–35.

82. Case C-128/11, *UsedSoft GmbH v. Oracle Int'l Corp.*, 2012 E.C.R. I-0000, 2012 O.J. (C 287) 16. For a detailed analysis of *Oracle v. UsedSoft*, see Louisa Specht's recent work in E-COMMERCE: RECHTSHANDBUCH 566 (Peter Bräutigam & Daniel Rücker eds., 2017).

83. *Id.* at 21–27.

84. *Id.* at 22.

85. *Id.*

86. *Id.* at 26.

87. *Id.* at 44–46; see Determann & Nimmer, *supra* note 63, at 182–83.

88. *UsedSoft GmbH*, at 44–46; see Determann & Nimmer, *supra* note 63, at 182–83.

89. See Determann, *supra* note 80, at 35; see Determann & Nimmer, *supra* note 63, at 182.

90. *UsedSoft GmbH*, at 44–46.

that if copyright exhaustion applies, the secondary purchaser may also transfer licenses<sup>91</sup> and contractual terms to the contrary are unenforceable.<sup>92</sup>

Since the CJEU applied the first sale doctrine so forcefully in *UsedSoft v. Oracle*, copyright owners have shied away from suing resellers of software that was sold online or on disks—let alone trying to prevent consumers from reselling computers, smartphones, cars, or other valuable devices—in suits based on assertions that the consumers do not own the software copies on such devices. The CJEU’s decision in *UsedSoft v. Oracle* even emboldened an unauthorized reseller of used software licenses in Germany to preemptively sue the software company SAP to obtain a declaratory judgment that SAP’s standard software resale restrictions were invalid. The Regional Court of Hamburg confirmed that such resale restrictions were indeed inconsistent with the first sale doctrine as applied by the CJEU in *UsedSoft v. Oracle* upholding the broad scope of the first sale doctrine applied to software transactions.<sup>93</sup>

### C. SUMMARY

With respect to software copies, users will find it more difficult to answer the questions regarding copyright exhaustion and resale rights, because they often have to consider contract terms. But, as a rule of thumb, users can assume that in the United States, they do not own their copies and they cannot resell, rent, or loan them. In the European Union, users tend to own any copies they acquired in a transaction involving a lump sum payment and perpetual possession, whether they buy their copies on disks or by download; they may resell their copies and even make temporary copies for purposes of resale (so long as they delete their original copy after their transfer), but they may not generally stream or rent software copies.<sup>94</sup>

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91. *Id.* at 84–85.

92. *Id.* at 84.

93. Landgericht Hamburg [LG Hamburg] [Regional Court of Hamburg] Oct. 25, 2013, GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT RECHTSPRECHUNGS-REPORT REGIONAL [GRUR-RR] 221 (223), 2014 (Ger.); see also Maša Savič, *The Legality of Resale of Digital Content After UsedSoft in Subsequent German and CJEU Case Law*, 37 EUR. INTEL. PROP. REV. 414, 417–18 (2015).

94. *EU Software Directive*, *supra* note 16, art. 4(2) (“The first sale in the Community of a copy of a program by the rightholder or with his consent shall exhaust the distribution right within the Community of that copy, with the exception of the right to control further rental of the program or a copy thereof.”); see also DREIER ET AL., URHG § 69(c) ¶ 19; *EU Rental Directive*, *supra* note 25, art. 6.

## V. DOWNLOADED AUDIOBOOKS, MUSIC FILES, AND OTHER DIGITAL GOODS

Following the review of cases pertaining to books, music disks, and software in Parts III and IV, this Article will now turn to newer cases regarding other types of digital goods such as audiobooks, ebooks, music files, and video games.

### A. RE SALE OF DOWNLOADED MUSIC FILES UNDER *REDIGI* IN THE UNITED STATES

In *Capitol Records, LLC v. ReDigi Inc.*,<sup>95</sup> the U.S. District Court for the Southern District of New York addressed the issue of resale of digital music files.<sup>96</sup> ReDigi was an online marketplace for used digital music files.<sup>97</sup> When users signed up for the ReDigi service, ReDigi enabled them to upload music files from the user's computer or smartphone to ReDigi's server, which was presented as the "Cloud Locker."<sup>98</sup> Before they were uploaded, a software program confirmed that the music files were authorized copies and not pirated counterfeit.<sup>99</sup> ReDigi configured its system to ensure that the copy on the user's computer or phone was deleted, bit-by-bit, as the new copy was created in the Cloud Locker, bit-by-bit. Based on this configuration, ReDigi tried to argue that functionally, the same copy was transferred since the system did not permit two full copies to ever exist at the same time.<sup>100</sup> Once the file was in the Cloud Locker, the user could sell it to someone else.<sup>101</sup> Whenever a user sold a file, ReDigi transferred a copy to the new owner's Cloud Locker account for download and the previous owner could no longer access her copy.<sup>102</sup> The court held that the resale of the music files on the website of ReDigi infringed the exclusive right of reproduction of Capitol Records under 17 U.S.C. §

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95. 934 F. Supp. 2d 640 (S.D.N.Y. 2013).

96. *Id.* at 645.

97. As of this writing, ReDigi appears to have stopped its digital music resale business, and now provides a service website for ebooks under the name "Skoobe." *About*, SKOOBE, <http://shopskoobe.com/about/> (last visited Dec. 31, 2017). ReDigi has also filed an appeal that is currently pending. *See* Brief for Plaintiffs-Appellees, *Capitol Records, LLC v. ReDigi Inc.*, No. 16-2321 (2d Cir. May 5, 2017), 2017 WL 1831835.

98. *Capitol Records*, 934 F. Supp. 2d at 645.

99. *Id.*

100. *Id.* at 645, 650.

101. *Id.* at 646.

102. *Id.*

106(1).<sup>103</sup> It answered the first two threshold questions as follows: (1) When the user first purchased and downloaded the music file to her computer, the user became the owner and entitled to resell the song with her computer;<sup>104</sup> (2) When the user uploaded a copy of her music file to ReDigi's Cloud Locker, the user infringed the copyright owner's reproduction right, even if ReDigi ensured with its technology that the user's original copy was simultaneously deleted; the new copy in the Cloud Locker was not authorized by the copyright owner, and it did not matter that it functionally took the place of the old copy.<sup>105</sup>

Thus, the court did not deny the application of the exhaustion doctrine to digital downloads, it only objected to the unauthorized reproduction that is necessary to transfer a downloaded copy to another storage medium.<sup>106</sup> Based on the *ReDigi* decision, a consumer is generally free to sell her *computer* with a previously downloaded music file based on the U.S. Copyright Act, but may not transfer the files themselves if doing so involves creating copies of them.<sup>107</sup>

#### B. RESALE OF DOWNLOADED AUDIOBOOKS IN GERMANY

After the CJEU wholeheartedly embraced exhaustion with respect to downloaded software copies in *UsedSoft v. Oracle*,<sup>108</sup> national courts in the European Union could have been expected to embrace digital exhaustion for other downloadable digital goods. But German courts took a different view.<sup>109</sup>

103. *Id.* at 651; 17 U.S.C. § 106(1) (2012) (“Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following: (1) to reproduce the copyrighted work in copies or phonorecords.”).

104. *Capitol Records*, 934 F. Supp. 2d at 655 (“Here, a ReDigi user owns the phonorecord that was created when she purchased and downloaded a song from iTunes to her hard disk.”).

105. *Id.* at 648 (“[C]ourts have not previously addressed whether the unauthorized transfer of a digital music file over the Internet—where only one file exists before and after the transfer—constitutes reproduction within the meaning of the Copyright Act. The Court holds that it does.”).

106. *Id.* at 650 (“[T]he fact that a file has moved from one material object—the user’s computer—to another—the ReDigi server—means that a reproduction has occurred.”).

107. The court did not address potentially applicable contractual restrictions, because it held that the Copyright Act independently prohibited copying. *Id.* at 648.

108. Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.*, 2012 E.C.R. I-0000, 2012 O.J. (C 287) 16.

109. Oberlandesgericht Hamm [OLG Hamm] [Higher Regional Court of Hamm] May 15, 2014, ZEITSCHRIFT FÜR URHEBER UND MEDIENRECHT—RECHTSPRECHUNGSDIENST [ZUM-RD] 715 (721), 2014 (Ger.); Oberlandesgericht Hamburg [OLG Hamburg] [Higher Regional Court of Hamburg] Apr. 12, 2014, MULTIMEDIA UND RECHT [MMR] 740 (741), 2015 (Ger.); Oberlandesgericht Stuttgart [OLG Stuttgart] [Higher Regional Court of Stuttgart] Mar. 11, 2011, MULTIMEDIA UND RECHT [MMR] 834 (835), 2012 (Ger.).

### 1. *Audiobooks*

In Germany, the Higher Regional Court of Hamm decided on a claim brought by a consumer protection association that license terms by an audiobook provider were unfair because they prohibited consumers from reselling their audiobooks.<sup>110</sup> In the *Hamm Audiobooks* case, users could download copies of audiobooks from the defendant's website for payment of a one-time fee by credit card and acceptance of terms according to which the user acquired only a nontransferable right to use the audiobook exclusively for personal use.<sup>111</sup> The terms also prohibited any commercial use, reproduction, and communicating copies to the public. The court had to decide whether the sales terms were unfair—whether they were unreasonably disadvantageous for the consumer.<sup>112</sup> Under German law, consumer protection associations can bring such claims against companies to enjoin them from using unfair or unenforceable contract terms.<sup>113</sup> Standard terms are unenforceable under German law when they are not compatible with essential principles of statutory default provisions from which they deviate.<sup>114</sup> Thus, to decide whether terms were unfair, the court had to analyze whether the respective sales terms were inconsistent with German copyright law, in particular the first sale doctrine under section 17(2) of the German Copyright Act.<sup>115</sup> The court ruled in favor of the copyright owner, stating that in cases where audiobooks are downloaded from the Internet, the exhaustion doctrine provided by section 17(2) of the

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110. Since German courts do not publish cases with names of the litigating parties, this Article will refer to this case as “*Hamm Audiobooks*” for short in text. See Oberlandesgericht Hamm [OLG Hamm] [Higher Regional Court of Hamm] May 15, 2014, ZEITSCHRIFT FÜR URHEBER UND MEDIENRECHT—RECHTSPRECHUNGSDIENST [ZUM-RD] 715 (716), 2014 (Ger.).

111. *Id.*

112. *Id.*

113. See UNTERLASSUNGSKLAGENGESETZ [UKlaG] [UNFAIR TERMS AND CONDITIONS ACT] § 3 (Ger.).

114. See BÜRGERLICHES GESETZBUCH [BGB] [CIVIL CODE] § 307(2)(1.) (Ger.).

115. *German Copyright Act*, *supra* note 16, § 17(2). The Act states:

Where the original or copies of the work have been brought to the market by sale with the consent of the person entitled to distribute them within the territory of the European Union or another state party to the Agreement on the European Economic Area, their dissemination shall be permissible, except by means of rental.

*Id.*

German Copyright Act is not applicable.<sup>116</sup> Therefore, the contractual resale prohibitions were enforceable.<sup>117</sup>

According to the court, a user cannot resell the copy of a media file that the user downloaded from the Internet because the user does not acquire ownership, and exhaustion does not result merely from the online transmission of a file.<sup>118</sup> When a company offers audiobooks embodied on a tangible medium, the company engages in distribution and typically transfers ownership of copies.<sup>119</sup> Yet, when the same company offers online downloads of an audiobook, the company engages in communication to the public under section 19a German Copyright Act<sup>120</sup> and not distribution under section 17(1) German Copyright Act.<sup>121</sup> Communication to the public under section 19a<sup>122</sup> does not result in exhaustion of the distribution right.<sup>123</sup>

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116. Oberlandesgericht Hamm [OLG Hamm] [Higher Regional Court of Hamm] May 15, 2014, ZEITSCHRIFT FÜR URHEBER UND MEDIENRECHT—RECHTSPRECHUNGSDIENST [ZUM-RD] 715 (719), 2014 (Ger.).

117. *Id.*

118. *Id.*

119. *Id.*

120. *German Copyright Act*, *supra* note 16, § 19a (“The right of making works available to the public shall constitute the right to make the work available to the public, either by wire or wireless means, in such a manner that members of the public may access it from a place and at a time individually chosen by them.”).

121. Oberlandesgericht Hamm [OLG Hamm] [Higher Regional Court of Hamm] May 15, 2014, ZEITSCHRIFT FÜR URHEBER UND MEDIENRECHT—RECHTSPRECHUNGSDIENST [ZUM-RD] 715 (720), 2014 (Ger.); *German Copyright Act*, *supra* note 16, § 17(1) (“The right of distribution is the right to offer the original or copies of the work to the public or to bring it to the market.”).

122. *See German Copyright Act*, *supra* note 16, § 19a.

123. Oberlandesgericht Hamm [OLG Hamm] [Higher Regional Court of Hamm] May 15, 2014, ZEITSCHRIFT FÜR URHEBER UND MEDIENRECHT—RECHTSPRECHUNGSDIENST [ZUM-RD] 715 (721), 2014 (Ger.).

The *Hamm Audiobooks* court also noted that Recitals 28<sup>124</sup> and 29<sup>125</sup> of the EU Copyright Directive support the view that exhaustion does not occur in cases of online transfers of intangible files.<sup>126</sup> The court held that outside of the software context, the exhaustion of the distribution right is tied to a transfer of ownership and possession of copies on physical media.<sup>127</sup> Therefore, a consumer who downloads a copy via the Internet does not acquire ownership of such copy, because physical media does not change hands.<sup>128</sup> Thus, the court answers the first of our threshold questions regarding exhaustion and resale rights as follows: When the user downloads a copy of an audiobook via the Internet, the user does not become the owner of that copy.

The court also noted that, even if a consumer could acquire ownership of a copy of a digital good by way of download, the consumer could not make an additional copy to sell separate from the computer or smartphone to which she downloaded the file, because doing so would affect the copyright owner's

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124. *EU Copyright Directive*, *supra* note 16, recital 28.

Copyright protection under this Directive includes the exclusive right to control distribution of the work incorporated in a tangible article. The first sale in the Community of the original of a work or copies thereof by the rightholder or with his consent exhausts the right to control resale of that object in the Community. This right should not be exhausted in respect of the original or of copies thereof sold by the rightholder or with his consent outside the Community. Rental and lending rights for authors have been established in Directive 92/100/EEC. The distribution right provided for in this Directive is without prejudice to the provisions relating to the rental and lending rights contained in Chapter I of that Directive.

*Id.*

125. *Id.* recital 29.

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

*Id.*

126. Oberlandesgericht Hamm [OLG Hamm] [Higher Regional Court of Hamm] May 15, 2014, ZEITSCHRIFT FÜR URHEBER UND MEDIENRECHT—RECHTSPRECHUNGSDIENST [ZUM-RD] 715 (723), 2014 (Ger.).

127. *Id.* at 725.

128. *Id.* at 726.



reproduction rights.<sup>129</sup> Therefore, a resale of downloaded copies is not practical, unless users download copies to low-value media, like a USB drive, which most consumers do not do.<sup>130</sup> Thus, the court's response to the second threshold question on digital exhaustion is: Even if a consumer owns a copy of a digital good other than software, the consumer may not make a temporary copy for purposes of resale, even if the consumer deletes her original copy.

Intrinsic to *Hamm Audiobooks* was the court's answer to the third threshold question regarding the effect and enforceability of applicable contract terms, which it answered as follows: The applicable contract terms prohibiting a resale of downloaded audiobooks were in line with statutory law, did not unfairly limit essential consumer rights, and were therefore enforceable.<sup>131</sup>

## 2. *Downloaded Ebooks and Audiobooks in Hamburg*

Shortly after *Hamm Audiobooks*, the Higher Regional Court of Hamburg<sup>132</sup> dismissed the appeal of a consumer protection association in a similar case.<sup>133</sup> Here, the association also claimed that standard terms for downloads of ebooks and audiobooks offered online were unfair.<sup>134</sup> According to the challenged terms, consumers did not acquire ownership to copies of downloaded ebooks or audiobooks.<sup>135</sup> Consumers only acquired a single non-transferable right to download a copy of an ebook or audiobook for personal consumption, which was revocable until receipt of payment in full.<sup>136</sup> A resale of audiobooks was explicitly prohibited.<sup>137</sup>

*Hamburg Audio and Ebooks* follows *Hamm Audiobooks*. The court held that when a consumer purchases ebooks or audiobooks, the consumer acquires a right to download and save a copy, but the consumer does not acquire ownership to intangible copies.<sup>138</sup> Ownership and exhaustion only apply in the

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129. *Id.* at 721.

130. *Id.*

131. *Id.* at 727; see BÜRGERLICHES GESETZBUCH [BGB] [CIVIL CODE] § 307(2)(2) (Ger.).

132. Oberlandesgericht Hamburg [OLG Hamburg] [Higher Regional Court of Hamburg] Apr. 12, 2014, MULTIMEDIA UND RECHT [MMR] 740 (741), 2015 (Ger.). As noted *supra* note 110, since German courts do not list case law by litigant name, this Article will refer to this case as "*Hamburg Audio and Ebooks*," in text. Note that currently a complaint against denial of leave to appeal is pending at the German Supreme Court under file number I ZR 115/15.

133. *Id.*

134. *Id.*

135. *Id.*

136. *Id.*

137. *Id.*

138. *Id.*

context of tangible media.<sup>139</sup> Offering an ebook or audiobook for download constitutes “making available to the public” and not distribution.<sup>140</sup> Thus, the doctrine of copyright exhaustion is exclusively applicable to copyrighted works embodied in a tangible medium.<sup>141</sup> Exhaustion does not occur when copies are transmitted online;<sup>142</sup> exhaustion requires a transfer of possession of physical media containing a copy.<sup>143</sup>

As the court analyzed the wording of section 17(2) German Copyright Act, it took into account the EU Copyright Directive because national courts in the European Union must interpret national law in compliance with the higher-ranking law of the European Union.<sup>144</sup> Thus, the court referred to Article 4(2) of the EU Copyright Directive,<sup>145</sup> which applies exhaustion in the case of a first sale or other transfer of ownership of an “object.” The Hamburg court concluded that since section 17(2) German Copyright Act is the national codification of Article 4(2) of the EU Copyright Directive, the German statutory provision also applies only to sales of objects—in other words, tangible media.<sup>146</sup> As in *Hamm Audiobooks*, the court found in *Hamburg Audio and Ebooks* that this view was supported by Recital 29 of the EU Copyright Directive.<sup>147</sup> The court noted that this recital expressly states that the exhaustion doctrine cannot apply to sales of intangibles.<sup>148</sup> The court concluded that “distribution” within the meaning of section 17 German Copyright Act requires a sale of a copy on a tangible medium.<sup>149</sup> Sales of ebooks or audiobooks by download therefore do not constitute a distribution and accordingly do not trigger exhaustion.<sup>150</sup>

Thus, the court in *Hamburg Audio and Ebooks* answers the three threshold questions pertaining to digital exhaustion similarly to the court in *Hamm*

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139. *Id.*

140. *Id.* at 742.

141. *Id.*

142. *Id.* at 741.

143. *Id.*

144. *See EU Copyright Directive, supra* note 16, art. 4(2) (“The distribution right shall not be exhausted within the Community in respect of the original or copies of the work, except where the first sale or other transfer of ownership in the Community of that object is made by the rightholder or with his consent.”).

145. *See id.*

146. Oberlandesgericht Hamburg [OLG Hamburg] [Higher Regional Court of Hamburg] Apr. 12, 2014, MULTIMEDIA UND RECHT [MMR] 740 (741), 2015 (Ger.).

147. *See EU Copyright Act.*

148. Oberlandesgericht Hamburg [OLG Hamburg] [Higher Regional Court of Hamburg] Apr. 12, 2014, MULTIMEDIA UND RECHT [MMR] 740 (742), 2015 (Ger.).

149. *Id.*

150. *Id.*

*Audiobooks*: Consumers do not become owners of copies they download from the Internet; consumers must not resell such copies or make additional copies for resale purposes; contractual resale restrictions are valid and enforceable.

### 3. CJEU on Exhaustion and Alternations of Storage Media

The CJEU has not yet had to decide whether exhaustion applies to downloaded audio or ebooks. But the CJEU has opined on the significance of the type of tangible media with respect to generating copies of copyrighted works in *Art & Allposters v. Stichting Pictoright*,<sup>151</sup> a case which the CJEU decided shortly before *Hamburg Audio and Ebooks*. Stichting Pictoright, a collective society in the Netherlands, had granted Allposters the right to reproduce works of renowned painters on posters and to distribute such posters.<sup>152</sup> Allposters made and sold posters, as expressly permitted, but also created and sold canvas versions (at a higher price than posters).<sup>153</sup> Allposters created the canvas products by transferring copies of paintings from posters to canvas via a chemical process.<sup>154</sup> Allposters did not make any additional copies; Allposters only moved the copies from poster paper to canvas background. Unlike in ReDigi's process,<sup>155</sup> Allposters actually moved the physical layer of paint from poster paper to canvas, so that the copy of painting that arrived on canvas was actually physically the same as had existed on poster paper.<sup>156</sup> Nevertheless, Pictoright complained that Allposters' process constituted unlawful reproduction.<sup>157</sup>

In *Art & Allposters*, the CJEU had to answer questions primarily concerning the legality of unauthorized alterations to a copy of a work after such copy was made and sold with the consent of the copyright owner. Yet, as a preliminary matter, the CJEU had to opine on the scope and extent of exhaustion, and stated in this regard that "exhaustion of the distribution right applies to the tangible object into which a protected work or its copy is incorporated if it has been placed onto the market with the copyright holder's consent."<sup>158</sup> The CJEU based this statement on three factors: first, on the wording of Article 4(2) of the EU Copyright Directive, which refers to a first

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151. C-419/13, *Art & Allposters Int'l BV v. Stichting Pictoright*, 2015 EUR-Lex CELEX LEXIS 62013CJ0419 (Jan. 22, 2015).

152. *Id.*

153. *Id.*

154. *Id.*

155. *See supra* Section V.A.

156. *Art & Allposters Int'l*, 2015 EUR-Lex CELEX LEXIS 62013CJ0419 ¶ 16.

157. *Id.* ¶ 16.

158. *Id.* ¶ 40.

sale or other transfer of ownership of a particular “object”; second, on the wording of Recital 28 of the EU Copyright Directive, which refers to “a tangible article”;<sup>159</sup> and third, a statement of the Contracting Parties of the WIPO Copyright Treaty concerning Articles 6 and 7 of that Treaty, according to which a “copy” refers exclusively to “fixed copies that can be put into circulation as tangible objects.”<sup>160</sup> Thus, the CJEU deduced that distribution rights become exhausted only with respect to a copy on a particular object of physical media (in this case, posters), and that exhaustion does not legitimize subsequent alterations of the physical media (including a transfer from poster paper to canvas).

Since the CJEU emphasized the connection of exhaustion to physical objects, one could infer from *Art & Allposters v. Pictoright* that exhaustion can only be triggered by a transfer of physical objects containing copies of copyrighted works and not by a download of digital copies via the Internet.<sup>161</sup> Apply the holding<sup>162</sup> to this Article’s scenarios and variations involving digital downloads, we could conclude:

[E]xhaustion of the distribution right . . . does not apply in a situation where a reproduction of a protected work, after having been marketed in the European Union with the copyright holder’s consent, has undergone an alteration of its medium, such as the transfer of that reproduction from a paper poster onto a canvas, and is placed on the market again in its new form.<sup>163</sup>

In the case of digital copies, the protected work is instead transferred from one computer to another, from a laptop to a phone, or from a tablet to a car.

159. *Id.* ¶ 34

160. *Id.* ¶ 39.

161. See Savič, *supra* note 93, at 425.

162. *Art & Allposters Int’l*, 2015 EUR-Lex CELEX LEXIS 62013CJ0419 ¶ 50. The opinion states:

Article 4(2) of 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 must be interpreted as meaning that the rule of exhaustion of the distribution right set out in Article 4(2) of Directive 2001/29 does not apply in a situation where a reproduction of a protected work, after having been marketed in the European Union with the copyright holder’s consent, has undergone an alteration of its medium, such as the transfer of that reproduction from a paper poster onto a canvas, and is placed on the market again in its new form.

*Id.*

163. *Id.* ¶ 50.

This would support German courts' answers to whether consumers may resell downloaded copies of digital goods: they must not resell such copies if doing so alters their physical medium.

#### 4. CJEU on Software Versus Other Digital Goods

In *Hamm Audiobooks* and *Hamburg Audio and Ebooks* both German courts rejected the plaintiffs' arguments that the CJEU's ruling in *UsedSoft v. Oracle* should apply equally to digital goods other than software.<sup>164</sup> The German courts noted that the CJEU's ruling was based on the EU Software Directive, which does not apply to ebooks or audiobooks; which constitutes *lex specialis* with respect to the Copyright Directive; and which does not establish a similar distinction between distribution of copies on tangible media (which can trigger exhaustion) and communication of copies to the public (which cannot trigger exhaustion).<sup>165</sup> Therefore, the German courts concluded that the reasoning of the CJEU in *UsedSoft v. Oracle* cannot be applied to online downloads of digital goods other than software.

#### C. DOWNLOADED VIDEO GAMES IN GERMANY

In 2010, the German Bundesgerichtshof (Federal Court of Appeals) had to decide on a claim brought by a consumer protection association against an American video game developer in a case commonly referred to as *Half-Life 2*.<sup>166</sup> In this case, consumers had to buy a DVD with a computer program and create an online account to play a video game.<sup>167</sup> To complete the online account creation, consumers had to accept contract terms that prohibited any resale or other transfer of the user account.<sup>168</sup> The consumer association complained that the contract terms prohibiting a resale of online accounts was unfair because it effectively prevented resales of the DVDs with the software, which was in turn inconsistent with the exhaustion principle under German

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164. Oberlandesgericht Hamm [OLG Hamm] [Higher Regional Court of Hamm] May 15, 2014, ZEITSCHRIFT FÜR URHEBER UND MEDIENRECHT—RECHTSPRECHUNGSDIENST [ZUM-RD] 715 (724–25), 2014 (Ger.); Oberlandesgericht Hamburg [OLG Hamburg] [Higher Regional Court of Hamburg] Apr. 12, 2014, MULTIMEDIA UND RECHT [MMR] 740 (744), 2015 (Ger.).

165. Oberlandesgericht Hamm [OLG Hamm] [Higher Regional Court of Hamm] May 15, 2014, ZEITSCHRIFT FÜR URHEBER UND MEDIENRECHT—RECHTSPRECHUNGSDIENST [ZUM-RD] 715 (725), 2014 (Ger.); Oberlandesgericht Hamburg [OLG Hamburg] [Higher Regional Court of Hamburg] Apr. 12, 2014, MULTIMEDIA UND RECHT [MMR] 740 (742), 2015 (Ger.).

166. Bundesgerichtshof [BGH] [Federal Court of Justice] Feb. 11, 2010, NEUE JURISTISCHE WOCHENSCHRIFT [NJW] 2661 (2662), 2010 (Ger.) [hereinafter *Half-Life 2*].

167. *Id.* at 2661.

168. *Id.* at 2662.

copyright law.<sup>169</sup> The German court disagreed and noted that the exhaustion principle does not directly apply to online accounts.<sup>170</sup> The German court found the fact that a third party might not be interested in purchasing the DVD without the corresponding online account (because the third party could not use the DVD without the online account) was insufficient to justify expanding the scope of the exhaustion principle or invalidating contract terms.<sup>171</sup> The court noted that the first sale of the software DVD triggered exhaustion and the purchaser was free to resell the DVD.<sup>172</sup> Thus, the second purchaser can install the computer program on her computer and, in cases in which the first purchaser did not create an online account, the second purchaser can even create an account and play the video game online.<sup>173</sup>

Five years after *Half-Life 2* and two years after *UsedSoft v. Oracle*, an appellate court in Berlin dismissed an appeal against a decision of the Regional Court of Berlin that ruled on a case with similar to *Half-Life 2*.<sup>174</sup> In the case before the courts in Berlin, users could purchase the video game either on a DVD or download it from the Internet.<sup>175</sup> In either case, users had to install software which they could download from the website of the defendant, create a user account, and accept terms including resale prohibitions.<sup>176</sup> The lower court held that the clauses were enforceable because they did not violate the exhaustion principle and the appeals court affirmed.<sup>177</sup> Citing *Half-Life 2*,<sup>178</sup> the appeals court in Berlin found that the contractual resale prohibitions regarding online accounts did not affect the exhaustion principle applicable to the software copies sold on physical DVDs.<sup>179</sup> Moreover, the court held that

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169. *Id.*

170. *Id.* at 2663.

171. *Id.*

172. *Id.*

173. *Id.*

174. Landgericht Berlin [LG Berlin] [Regional Court of Berlin] Jan. 21, 2014, ZEITSCHRIFT FÜR URHEBER UND MEDIENRECHT—RECHTSPRECHUNGSDIENST [ZUM-RD] 504, 2014 (Ger.).

175. *Id.*

176. *Id.* at 504–05.

177. *Id.* at 504, 507; Kammergericht Berlin [KG Berlin] [Higher Regional Court of Berlin] Aug. 27, 2015, ZEITSCHRIFT FÜR URHEBER UND MEDIENRECHT—RECHTSPRECHUNGSDIENST [ZUM-RD] 181, 2015 (citing Kammergericht Berlin [KG Berlin] [Higher Regional Court of Berlin] Aug. 10, 2015, MULTIMEDIA UND RECHT [MMR] 340, 2016 (Ger.) (relying on the reasoning in its prior court order in the case).

178. *Half-Life 2*, *supra* note 166, at 2661.

179. Kammergericht Berlin [KG Berlin] [Higher Regional Court of Berlin] Aug. 10, 2015, MULTIMEDIA UND RECHT [MMR] 340 (340), 2016 (Ger.); *see also* Landgericht Berlin [LG

exhaustion did not even apply with respect to copies of video games that users downloaded, because no tangible medium was involved in such cases.<sup>180</sup> The CJEU's reasoning in *UsedSoft v. Oracle* did not apply, because the downloaded video games were not "sold" for purposes of the German copyright law that implemented Article 4(2) of the EU Software Directive.<sup>181</sup> In *UsedSoft v. Oracle* the software ran locally and the user received an unlimited right to use the software in exchange for payment of a lump sum fee, whereas in *Half-Life 2*, the program copies of the video games require a constant exchange with the servers of the defendant.<sup>182</sup> The defendant had to provide continuous services to the users to enable them to play the game.<sup>183</sup> Thus, the user never acquired a position comparable to the one of an owner of the video game.<sup>184</sup> Moreover, the Berlin Court of Appeals noted that the defendant does not offer the games as single copies of works, but rather as an integrated part of a package of services.<sup>185</sup> A transfer of the video game to someone else would factually qualify as a transfer of a contract that requires the consent of the defendant under German law.<sup>186</sup> Thus, no "sale" of a copy in the sense of *UsedSoft v. Oracle* had occurred.<sup>187</sup> As such, when the user purchases video games on DVDs, exhaustion occurs, and the user is free to resell the DVD. However, when the user downloads the video game, no exhaustion occurs since no tangible good is involved.

Two days after the decision of the Regional Court of Berlin,<sup>188</sup> the CJEU decided *Nintendo v. PC Box*.<sup>189</sup> The case was not expressly about exhaustion in cases of video games, but instead about technical measures used to protect

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Berlin] [Regional Court of Berlin] Jan. 21, 2014, ZEITSCHRIFT FÜR URHEBER UND MEDIENRECHT—RECHTSPRECHUNGSDIENST [ZUM-RD] 504 (508), 2014 (Ger.).

180. Kammergericht Berlin [KG Berlin] [Higher Regional Court of Berlin] Aug. 10, 2015, MULTIMEDIA UND RECHT [MMR] 340 (340), 2016 (Ger.).

181. *Id.*

182. *Id.*

183. *Id.*; see also Landgericht Berlin [LG Berlin] [Regional Court of Berlin] Jan. 21, 2014, ZEITSCHRIFT FÜR URHEBER UND MEDIENRECHT—RECHTSPRECHUNGSDIENST [ZUM-RD] 504 (509), 2014 (Ger.).

184. Kammergericht Berlin [KG Berlin] [Higher Regional Court of Berlin] Aug. 10, 2015, MULTIMEDIA UND RECHT [MMR] 340 (340), 2016 (Ger.).

185. *Id.*

186. *Id.*

187. *Id.*

188. Landgericht Berlin [LG Berlin] [Regional Court of Berlin] Jan. 21, 2014, ZEITSCHRIFT FÜR URHEBER UND MEDIENRECHT—RECHTSPRECHUNGSDIENST [ZUM-RD] 504 (508), 2014 (Ger.).

189. Case C-355/12, *Nintendo Co. Ltd. v. PC Box Srl*, 2013 EUR-Lex CELEX LEXIS 581 (Sept. 19, 2013).

video games. The CJEU had to decide whether Article 6(3) of the EU Copyright Directive covers only technical protection measures pertaining to media containing copies of works, or also measures on players for such media.<sup>190</sup> Nintendo installed a recognition system in its game consoles and adopted encrypted codes for the cartridges onto which the video games were registered.<sup>191</sup> Games without a code cannot normally be used on the consoles.<sup>192</sup> However, when a user installed PC Box equipment on her console, the user could circumvent the protection system and use illegal copies of video games (i.e., games lacking a “Nintendo” code).<sup>193</sup> In its reasoning, the CJEU did not apply the provisions of the EU Software Directive, under which protection measures may be less far-reaching than the ones under the EU Copyright Directive.<sup>194</sup> The CJEU held that video games are a complex product comprising not only of computer programs, but also of graphic and sound elements which are parts of the video game’s originality and, thus, are protected together with the entire work under the EU Copyright Directive.<sup>195</sup> Hence, the CJEU applies the more protective EU Copyright Directive—rather than the EU Software Directive—to video games.

Later in 2014, the Regional Court of Berlin applied *Nintendo v. PC Box* in the context of exhaustion, video games, and “Keyselling.”<sup>196</sup> An owner of an internet shop sent product keys for video games to customers via email in return of a lump sum fee.<sup>197</sup> The customers could then download video games from the Internet onto their computers.<sup>198</sup> The shop owner claimed that the product keys were added to physical data carriers of the video game which his partners in the United Kingdom and Poland purchased.<sup>199</sup> They would then send him the product keys via email and subsequently destroy the physical data carrier and the electronic copy of the product key in the form of a scanned image file.<sup>200</sup> The internet shop owner asserted that the copyright owner’s

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190. *Id.* ¶ 18.

191. *Id.*

192. *Id.* ¶ 10–12.

193. *Id.* ¶ 12–14.

194. *Id.* ¶ 21; see also *EU Copyright Directive*, *supra* note 16, art. 6 (providing for broader technological protection measures than article 5(1) and article 6 of EU Software Directive).

195. *Nintendo*, ¶ 23.

196. Landgericht Berlin [LG Berlin] [Regional Court of Berlin] Mar. 11, 2014, GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT RECHTSPRECHUNGS-REPORT REGIONAL [GRUR-RR] 490, 2014 (Ger.).

197. *Id.*

198. *Id.*

199. *Id.*

200. *Id.*



“reproduction right was exhausted” and that he was free to resell the product keys.<sup>201</sup> The court held that exhaustion is tied to the product being sold, but that the internet shop owner changed the form of the product by only selling the product key and not the physical data carrier that had been purchased.<sup>202</sup> Thus, the shop owner violated the copyright owner’s reproduction right.<sup>203</sup> The court also stated that nothing else follows from *UsedSoft v. Oracle* because the video games were not downloaded by the first purchaser and, moreover, because video games do not consist exclusively of computer programs.<sup>204</sup> The court stated that because of its film elements, the video game enjoys protection under the EU Copyright Directive, and that this finding is supported by the CJEU’s *Nintendo v. PC Box* decision.<sup>205</sup> According to the court, however, Article 4(2) of the EU Copyright Directive only provides for exhaustion in cases of tangible media.<sup>206</sup> The court then found that there is no reason why a copyright owner should lose the higher protection granted to them by the EU Copyright Directive only because the copyright owner adds a computer program to the protected film elements of a video game.<sup>207</sup> This decision by the Regional Court of Berlin affirms the conclusion that *UsedSoft v. Oracle* is not applicable analogously in cases of downloaded video games, and that German courts would find that a download of a video game does not trigger exhaustion since Article 4(2) of the EU Copyright Directive requires the involvement of a tangible good.

#### D. USED EBOOKS IN THE NETHERLANDS

For comparison, Dutch national copyright law implements the same EU Directives and treaties as German national copyright law and is, thus, generally similar.<sup>208</sup> In the Netherlands, a court of appeals seemed more inclined to apply the first sale doctrine than the German courts in Hamm and Hamburg or the U.S. court in *ReDigi*,<sup>209</sup> albeit in a preliminary injunction ruling (“kort geding”).<sup>210</sup> The case involved the online marketplace “Tom Kabinet” for used

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201. *Id.*

202. *Id.*

203. *Id.*

204. *Id.* at 491.

205. *Id.*

206. *Id.*

207. *Id.*

208. See P. Bernt Hugenholtz, *Chronicle of the Netherlands: Dutch Copyright Law, 1990-1995*, 169 REVUE INTERNATIONALE DU DROIT D’AUTEUR [R.I.D.A.] 128 (1996).

209. See *supra* Section V.A.

210. Gerechtshof Amsterdam [Amsterdam Court of Appeal] 20 januari 2015, No. 200.154.572/01 SKG (Nederlandse Uitgeversverbond/Tom Kabinet Internet B.V.) (Neth.),

and DRM-free ebooks, using a “one-copy-one-user” model as well as terms resembling ReDigi’s. Under the contract terms of the Tom Kabinet platform, consumers who wanted to sell ebooks had to declare that they had legally acquired their copies and that they would delete their existing copies after uploading a further copy to the platform. In order to prevent trading with illegal copies, the marketplace added new watermarks to the ebooks after they were purchased.<sup>211</sup> The Amsterdam District Court in first instance ruled in the preliminary injunction that the resale of used ebooks could be permissible.<sup>212</sup> Then, the Amsterdam Court of Appeals agreed with the lower court that the *UsedSoft v. Oracle* decision leaves the question open as to whether digital exhaustion applies to intangible copyrighted work other than software.<sup>213</sup> However, since the decision of the Amsterdam Court of Appeals concerned a preliminary injunction, it did not issue a ruling on this issue.<sup>214</sup> Instead, it left this substantive issue to the court that would eventually decide the case on the merits.<sup>215</sup> The court ordered that “Tom Kabinet” had to stop the resale of ebooks until the website provided for technical measures that effectively prevented sellers from uploading illegally downloaded copies.<sup>216</sup>

#### E. CJEU ON ONLINE LENDING OF EBOOKS

In *Vereniging Openbare Bibliotheken v. Stichting Leenrecht*,<sup>217</sup> in 2016, the CJEU answered questions from a Dutch court on whether Dutch law allowed a

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<https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:GHAMS:2015:66> [<https://perma.cc/7KY5-SYVR>] [hereinafter *Tom Kabinet*].

211. See Saba Sluiter, *The Dutch Courts Apply UsedSoft to the 0052 resale of eBooks*, KLUWER COPYRIGHT BLOG (Jan. 28, 2015), <http://kluwercopyrightblog.com/2015/01/28/the-dutch-courts-apply-usedsoft-to-the-resale-of-ebooks/> [<https://perma.cc/B3QL-A94R>].

212. See Loek Essers, *Dutch Courts Lets Ebook Reseller Stay Online*, TECHWORLD (July 22, 2014, 2:54 AM), [https://www.techworld.com.au/article/550527/dutch\\_courts\\_lets\\_ebook\\_reseller\\_stay\\_online/](https://www.techworld.com.au/article/550527/dutch_courts_lets_ebook_reseller_stay_online/) [<https://perma.cc/PAG7-FDHA>].

213. *Tom Kabinet*, *supra* note 210, ¶ 3.5.2.

214. *Id.* ¶ 3.5.3.

215. *Id.*

216. See Sluiter, *supra* note 211; Simon Apel, *Keine Anwendung der “UsedSoft”—Rechtsprechung des EuGH jenseits von Computerprogrammen—Eine Bestandsaufnahme zur Erschöpfung bei “Gebrauchten” Digitalen Gütern*, 2015 ZEITSCHRIFT FÜR URHEBER UND MEDIENRECHT (ZUM) 640, 643 (2015).

217. C-174/15, *Vereniging Openbare Bibliotheken v. Stichting Leenrecht*, 2016 EUR-Lex CELEX LEXIS 62015CJ0174 (Nov. 10, 2016). For a critical assessment of the CJEU’s ruling in *Leenrecht*, see Vicky Breemen, *E-Lending According to the ECJ: Focus on Functions and Similar Characteristics in VOB v. Stichting Leenrecht*, 39 EUR. INTEL. PROP. REV. 249 (2017). See also generally Jochen Marly & Anna-Lena Wirz, *Die Weiterverbreitung Digitaler Güter*, 2017 EUROPÄISCHE ZEITSCHRIFT FÜR WIRTSCHAFTSRECHT (EuZW) 16 (analyzing whether digital exhaustion exists in Germany after *Vereniging Openbare Bibliotheken v. Stichting Leenrecht*).

library to lend ebooks by way of temporary downloads under the EU Rental Directive.<sup>218</sup> In the Dutch case, a public library copied ebooks to a server and allowed library users to download a copy to a personal computer or smartphone.<sup>219</sup> The Dutch public library ensured that only one copy of the ebook was available to one library user at any given time. After the lending period expired, the lender could no longer access the downloaded copy.<sup>220</sup>

The CJEU found no problems with lending ebook copies by way of download. It held that in such cases, “lending” (within the meaning of Art. 1(1),<sup>221</sup> Art. 2(1)(b),<sup>222</sup> and Art. 6(1)<sup>223</sup> of the EU Rental Directive)<sup>224</sup> covered the lending of a digital copy of a book. Under the “one-copy-one-user” model, lending of an ebook affects the copyright owner and the public similarly to lending a physical book.<sup>225</sup> Moreover, the EU court held that a Member State can make the exception to the copyright owner’s exclusive lending right under Art. 6(1) of the Directive, subject to the condition that the ebook that the library is lending has “been put into circulation by a first sale or other transfer of ownership of that copy in the European Union by the holder of the right of distribution to the public or with his consent, for the purpose of Art. 4(2) of Directive 2001/29/EC . . . .”<sup>226</sup>

Since this decision concludes that an EU Member State may codify an exception to the exclusive lending right of the copyright owner for libraries, it follows that ebooks may fall under the scope of that exception as well. However, the CJEU did not expressly address the question of whether a copyright owner triggers exhaustion by making an ebook available for

218. *See EU Rental Directive, supra* note 25.

219. *See EU Copyright Directive, supra* note 16, recital 28.

220. Case C-174/15, *Vereniging Openbare Bibliotheken v. Stichting Leenrecht*, 2016 EUR-Lex CELEX LEXIS 62015CJ0174 ¶ 26 (Nov. 10, 2016).

221. *EU Rental Directive, supra* note 25, art. 1(1) (“In accordance with the provisions of this Chapter, Member States shall provide, subject to Article 6, 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).”).

222. *Id.* art. 2(1)(b) (“For the purposes of this Directive the following definitions shall apply: . . . (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 . . . .”).

223. *Id.* art. 6(1) (“Member States may derogate from the exclusive right provided for in Article 1 in respect of public lending, provided that at least authors obtain a remuneration for such lending. Member States shall be free to determine this remuneration taking account of their cultural promotion objectives.”).

224. *Id.*

225. *Vereniging Openbare Bibliotheken*, ¶ 51, 53, 74.

226. *Id.*

download or whether the library could lend a copy that was purchased on a disk or other tangible medium. Thus, the CJEU did not address the threshold question of whether the consumer of a digital good actually owns a copy. The CJEU also did not expressly answer the second threshold question of whether the owner of a copy of a digital good may lend such copy out separate from the media on which it was acquired. Further, the CJEU did not—and did not have to, in the procedural posture of the referral from the Dutch court—expressly address the question of whether reproduction rights of the copyright owner are infringed in the context of digital lending. The mere fact that the CJEU did not raise this issue at all might indicate that the CJEU was not concerned about reproduction rights affected by digital lending. This would also be consistent with its broad views of exhaustion in the context of software downloads, as expressed in *UsedSoft v. Oracle*.<sup>227</sup>

#### F. SUMMARY

When consumers download digital goods other than software in the United States, they may become owners of their copies according to *ReDigi* and are accordingly entitled to resell their copies with the device onto which they downloaded their copies. But consumers are not allowed to transfer copies on a device other than the one they used to first download the copy, even if they quickly or simultaneously delete their original copy. Any such reproduction would constitute copyright infringement under U.S. law. Consequently, buyers of copies of digital goods can resell their copies only on the medium on which they exist (such as on a car or computer), but not separately.

German courts have found that offering digital goods other than software for download does not constitute “distribution,” but instead is “communication to the public.” Communication of intangible copies to the public does not result in exhaustion. As such, users do not become owners of downloaded digital goods, and they must not resell their copies—even with the device on which they downloaded their copies. German courts have also found that owners of digital copies may not transfer their copies without the media on which they are stored, because that infringes the copyright owner’s reproduction rights.

The CJEU also differentiates between the communication of intangible digital goods (which does not trigger exhaustion) and the distribution of tangible digital goods (which does trigger exhaustion) outside the realm of software. But the CJEU does not seem to be concerned with reproduction of

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227. See *infra* Section IV.B.

digital copies for purposes of lending (and by extension perhaps of resale), so long as ultimately only one copy per user remains. Yet, the CJEU has not yet ruled on whether offering digital goods other than software for download constitutes distribution (triggering exhaustion) or only communication to the public (which does not trigger exhaustion).

## VI. INTERNATIONAL EXHAUSTION

Before turning to our three scenarios and variations to apply our findings regarding digital exhaustion in the new and old worlds, this Article will briefly review the territorial scope of exhaustion in both.

### A. INTERNATIONAL EXHAUSTION UNDER U.S. COPYRIGHT LAW

In 2013, the U.S. Supreme Court held in *Kirtsaeng v. John Wiley & Sons, Inc.*,<sup>228</sup> that the first sale doctrine under U.S. copyright law also applies to copies lawfully made and first sold outside the United States.<sup>229</sup> Thus, Kirtsaeng was permitted to buy copies of English textbooks sold under license from a U.S. publisher at low retail prices in Thailand and resell them in the U.S. at a profit in competition with the U.S. publisher, who generally charges higher prices in the U.S. market. Consistent with decade-old prior case law, the lower court held that the first sale doctrine would not apply since no authorized first sale had occurred in the United States.<sup>230</sup> The Supreme Court reversed, stating that so long as copies of copyrighted books were lawfully made and first sold with the copyright owner's permission somewhere in the world, they could be resold in the territory of the United States.<sup>231</sup>

In *Kirtsaeng*, the U.S. Supreme Court addressed only the sale of physical books, not software or digital goods. But the Court noted the impact of its decision for unauthorized imports of cars and other devices containing software, which the Court wanted to favor.<sup>232</sup> This raises the question of whether the U.S. Supreme Court would also allow the importation of digital goods first sold in Europe on a disk or device or by download. In light of the territoriality principle governing property law, it would seem appropriate for

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228. *Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U.S. 519 (2013).

229. See generally Eric Goldman, *The Supreme Court's Kirtsaeng Ruling is Good News for Consumers, but the First Sale Doctrine is Still Doomed*—Kirtsaeng v. John Wiley, TECH. & MARKETING L. BLOG (Mar. 26, 2013), [http://blog.ericgoldman.org/archives/2013/03/the\\_supreme\\_cou.htm](http://blog.ericgoldman.org/archives/2013/03/the_supreme_cou.htm).

230. *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210 (2d Cir. 2011), *rev'd and remanded*, 568 U.S. 519 (2013).

231. *Kirtsaeng*, 568 U.S. at 558.

232. *Id.* at 542–43.

U.S. courts to decide the question of whether a copyright owner transferred ownership to a copy of a digital good as a matter of U.S. law and not under property laws of the foreign jurisdictions where a copy may have been first acquired.<sup>233</sup> This would largely preclude reselling in the United States software copies that were acquired abroad because software licensees are usually not considered owners of their copies under *Vernor v. Autodesk, Inc.*,<sup>234</sup> even if they may qualify as owners in Europe under *UsedSoft v. Oracle*.<sup>235</sup> Also, to the extent that reselling or lending a digital copy from Europe to the United States involves reproduction, this would constitute infringement under U.S. law, regardless of whether it may be permissible in Europe.<sup>236</sup> On the other hand, a U.S. court could treat the buyer of a downloaded copy as its owner and allow the resale of an imported car, computer, or USB drive with downloaded music files, if the applicable contract terms are not incompatible with the notion of a sale.

#### B. INTERNATIONAL EXHAUSTION IN THE EU

Under EU law, the first sale of a copy within any Member State of the European Economic Area (EEA) causes exhaustion and the buyer is free to resell the copy in any EEA member state.<sup>237</sup> But a sale outside the EEA does not count at all. Article 4(2) of the EU Copyright Directive<sup>238</sup> states that “[t]he distribution right shall not be exhausted within the Community . . . except where the first sale or other transfer of ownership in the Community of that object is made by the rightholder or with his consent.” Similarly, Article 4(2) of the EU Software Directive<sup>239</sup> explains that “first sale in the Community of a copy of a program by the rightholder or with his consent shall exhaust the distribution right within the Community . . . .”<sup>240</sup> Thus, if Kirtsaeng sold textbooks purchased in Thailand to students in Germany without the consent of the copyright owner, a German court would have to rule that Kirtsaeng’s resale in Germany infringes the distribution right of the copyright owner. Transactions outside the EEA never exhaust distribution rights within the EEA. Thus, there is no need to consider whether transactions outside the EEA should be analyzed under property laws at the place of transaction or where a resale occurs.

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233. Determann, *supra* note 80.

234. *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1110 (9th Cir. 2010).

235. *See also* Determann, *supra* note 80.

236. *See supra* Section V.A.

237. DREIER ET AL., URHG § 17 ¶ 35.

238. *See EU Copyright Directive, supra* note 16.

239. *See EU Software Directive, supra* note 16.

240. *See EU Copyright Directive, supra* note 16, recital 28.

## VII. U.S. AND EU DIGITAL EXHAUSTION RULES SUMMARIZED AND APPLIED

Based on the review of statutes and cases in Parts II through VI of this Article, this Part can answer the questions posed regarding the scenarios and variations set forth in Part I.

### A. COPIES OF DIGITAL GOODS ON A USB DRIVE OR CD

If a consumer buys a copy of a digital good on a USB drive or CD, she may generally resell, rent, or lend the USB drive or CD with the copy. If a consumer acquires the copy by way of lending, renting, or streaming, she does not have such rights.

Copies purchased in the European Union can generally be imported and resold in the United States, but not the other way around. U.S. and German courts do not allow the owner of a copy of a digital good to transfer their copy without the storage media, because this would typically infringe the copyright owner's reproduction right.

Exceptions apply with respect to software copies. Renting and lending is generally not allowed in the United States, and reselling is usually effectively prohibited in end-user license agreements, which U.S. courts tend to honor. Courts in the European Union, on the other hand, tend to disregard contractual resale restrictions or license terms, and allow a resale of software copies that a copyright owner transfers perpetually in consideration for a lump sum payment. In the European Union, owners of software copies may also make and sell copies so long as they do not retain an extra copy.

In addition, in the European Union, national copyright law may—and in the Netherlands, does—allow public libraries to lend copies of ebooks so long as only one user has access to each copy at any given time.

In the European Union and the United States, consumers may generally not communicate, perform, or display a rented copy to the public, such as by way of streaming, unless the copyright owner consents.

### B. COPIES OF DIGITAL GOODS PREINSTALLED ON COMPUTERS, SMARTPHONES, OR CARS

If a consumer buys digital goods preinstalled on valuable storage devices—such as computers, smartphones or cars—the same rules developed in the preceding section with respect to USB drives and CDs should apply equally. But in practice, copyright owners have not tried to prevent buyers of expensive hardware with preinstalled digital goods from reselling the hardware. Also, car manufacturers generally do not try to prohibit renting and reselling of automobiles based on copyrightable software installed on cars.

### C. DOWNLOADED COPIES OF DIGITAL GOODS

If a consumer acquires copies of digital goods online by downloading them, she does not become an owner or obtain resale rights according to German courts, and she may not make an extra copy for purposes of transferring copies she owns separate from the media, even if she deletes the original copy. The exception is software, which may be resold with storage media or copied for separate resale purposes (so long as the original copy is deleted).

According to U.S. courts, consumers typically do not acquire ownership or resale rights with respect to software copies, whether downloaded or acquired on a disk. According to *ReDigi*, consumers may become the owner of a downloaded music file and become permitted to resell the copy with the device on which it was downloaded. But consumers must not create any extra copies for resale purposes, even if they simultaneously delete their original copy.

## VIII. ASSESSMENT AND OUTLOOK

The rules on copyright exhaustion remain very complex and divergent in the United States and the European Union. They differ from one jurisdiction to the next, and also differ within each jurisdiction depending on whether software or other digital goods are concerned, whether a first sale occurred within or outside a jurisdiction, and whether copies are downloaded or distributed on physical media. Additional differences are present in each jurisdiction with respect to the validity of contractual resale restrictions, types of commercial transactions, as well as whether reproduction is permissible in order to sell copies separate from storage media and whether exhaustion applies internationally. It is no wonder that many consumers do not know what they “buy” when they “buy now.”<sup>241</sup>

Much has already been written about general policy considerations for and against digital exhaustion. A brief summary of pros and cons seems sufficient for purposes of this Article. Advocates of digital exhaustion refer to consumer expectations, consumer welfare, public access to works, freedom of commerce, and transaction privacy in favor of digital exhaustion, allowing consumers to resell copies of digital works without a need for permission from

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241. See Perzanowski & Hoofnagle, *supra* note 1, at 322 (presenting an empirical study on consumers being misled by the “buy now” language in the digital media marketplace).



the copyright owner.<sup>242</sup> Opponents cite interests of copyright owners, freedom of contract principles, and counterproductive disruptions that typically come with legislative changes or courts overruling established statutory interpretations.<sup>243</sup>

Wherever one comes out on the balancing of public policy interests for and against digital exhaustion, it is worth noting that German courts have, so far, largely rejected the concept of digital exhaustion, despite the traditionally high standards of consumer protection in Germany. This raises the question of whether consumers really need similar litigation in the United States to protect consumer welfare,<sup>244</sup> and whether the various other differentiation criteria applied by courts in the United States and in the European Union are appropriate in light of the aforementioned policy considerations.

#### A. CONSUMER WELFARE AND CONTRACT TERMS

Consumers are not only interested in the ability to resell digital goods, and, perhaps, not even primarily.<sup>245</sup> Consumers are usually more focused on their

242. See, e.g., Aaron Perzanowski & Jason Schultz, *Digital Exhaustion*, 58 UCLA L. REV. 889, 893–901 (2011); see also Perzanowski & Schultz, *supra* note 20, at 1213; Joseph P. Liu, *Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership*, 42 WM. & MARY L. REV. 1245, 1303, 1310–11, 1320–21, 1330–33, 1336 (2001); R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C. L. REV. 577, 585–94 (2003). See generally LAWRENCE LESSIG, *FREE CULTURE: HOW BIG MEDIA USES TECHNOLOGY AND THE LAW TO LOCK DOWN CULTURE AND CONTROL CREATIVITY* (2004).

243. See, e.g., Apel, *supra* note 216, at 645–46; see also Herbert Hovenkamp, *Post-Sale Restraints and Competitive Harm: The First Sale Doctrine in Perspective*, 66 N.Y.U. ANN. SURV. AM. L. 487, 490, 493 (2011); see also Peter Mezei, *Digital First Sale Doctrine Ante Portas: Exhaustion in the Online Environment*, 6 J. INTELL. PROP. INFO. TECH. & E-COM. L. 23, 56 (2015) (analyzing arguments against the introduction of a digital exhaustion principle and asserting that digital exhaustion can function effectively when forward-and-delete software is included in the resale of digital goods, as well as unique ID numbers for digital files).

244. Perzanowski & Hoofnagle, *supra* note 1, at 378.

245. See also Oberlandesgericht Hamm [OLG Hamm] [Higher Regional Court of Hamm] May 15, 2014, ZEITSCHRIFT FÜR URHEBER UND MEDIENRECHT—RECHTSPRECHUNGSDIENST [ZUM-RD] 715 (726), 2014 (Ger.). In *Hamm Audiobooks*, the judges stated that the expectation of the consumer is defined by where and how the consumer wants to use the product and doubt whether the consumer has the expectation to be able to transfer the digital good later.

*[The interested consumer will rather make his decision primarily dependent on where and how he wants to use the product – here: the audiobook –, namely whether on the home stationary music system or the local personal computer or on a mobile playback device. For these purposes the different forms of the work are suitable in different ways. It is, therefore, doubtful, whether the possibility of a later transfer acquires significance for the decision on the form of the work. Those who want to give it away as a present will resort to the embodied product anyway.]*

ability to use digital goods on several devices (e.g. on a smartphone, home computer, and MP3 music player), to create backup copies in the cloud; to share books, video streams, and music files with family members; and, to copy music libraries to upgraded hardware devices. Neither the first sale doctrine nor other provisions in copyright laws afford consumers such rights, but many suppliers of digital goods grant such rights contractually. Apple's Terms of Use for digital goods, for example, provide that the user may "burn an audio playlist to CD for listening purposes up to seven times,"<sup>246</sup> re-download the music file purchased to other devices,<sup>247</sup> or upload it to cloud storage.<sup>248</sup> Such forms of use, without the respective terms, would violate the rightholder's reproduction right under German and U.S. copyright law. They would not be covered by the first sale doctrine.<sup>249</sup> Even if the principle of digital exhaustion was universally accepted, the user would still violate the copyright owner's exclusive reproduction right by, for example, burning the music files from the user's computer on a CD to listen to the music while driving.

Most consumers would appreciate a resale right *in addition* to such contractual rights. But copyright owners may not wish to offer such

*Id.* (translated by the author).

246. *Apple Media Services Terms and Conditions*, APPLE, <https://www.apple.com/legal/internet-services/itunes/us/terms.html> [<https://perma.cc/U6WF-JGY7>] (describing limitations on "iTunes Store Content") (last updated September 13, 2016).

247. *See id.* ("You may be able to re-download previously acquired Content . . . to your devices that are signed in with the same Apple ID . . ."); *see also Audible Conditions of Use*, AMAZON (July 19, 2017), [www.amazon.com/gp/aw/help/id=201987350](http://www.amazon.com/gp/aw/help/id=201987350) [<https://perma.cc/4BH5-STXN>] ("As a convenience to you we may continue to make your purchased content available for re-download through your Service account, but we do not guarantee that such content will be available for re-download and Audible will not be liable to you if it becomes unavailable for further re-download.").

248. *See, e.g.,* APPLE, *supra* note 246 (" iCloud Music Library is an Apple Music feature that allows you to access your matched or uploaded songs, playlists and music videos acquired from Apple Music, the iTunes Store or a third party . . . on your Apple Music-enabled devices. . . . You can upload up to 100,000 songs. Songs acquired from the iTunes Store or Apple Music do not count against this limit.").

249. The first sale doctrine results in an exhaustion of the distribution right, but not of the reproduction right of the copyright owner. S. Zubin Gautam, *The Murky Waters of First Sale: Price Discrimination and Downstream Control in the Wake of Kirtsaeng v. John Wiley & Sons, Inc.*, 29 BERKELEY TECH. L.J. 717, 752 (2014) ("Thus, any redistribution by an initial purchaser of a downloaded digital work would implicate the rights holder's exclusive reproduction right . . . [T]he first sale doctrine's limitation of the exclusive right to distribute copyrighted works is irrelevant in the world of distribution via download because the reproduction right indirectly grants the copyright holder absolute control over distribution of her work."); Brian W. Carver, *Why License Agreements Do Not Control Copy Ownership: First Sales and Essential Copies*, 25 BERKELEY TECH. L.J. 1887, 1937 n.212 (2010) (noting that a purchaser could lawfully resell a work of art, but could not make copies of the artwork and sell those).

contractual rights voluntarily if they are forced to accept the consequences of mandatory digital exhaustion. Contractual reproduction rights paired with mandatory resale rights could seriously amplify the adverse impact on copyright owners' commercialization opportunities, as consumers hold more copies that they can potentially resell in practice. If courts and legislatures mandate digital exhaustion without regard to contract terms and legitimate commercialization interests, as the CJEU did in *UsedSoft*,<sup>250</sup> copyright owners may be forced to cut down on voluntarily granting reproduction rights or flee into service models that clearly avoid sales, as they have in the software space.<sup>251</sup>

Therefore, from a consumer welfare perspective, courts and legislatures should respect contract terms and commercial transaction types, as U.S. courts generally have, and as German courts have with respect to digital goods other than software. Courts should refrain from applying the exhaustion principle as rigidly as the CJEU did in *UsedSoft v. Oracle*.

#### B. TANGIBLE VERSUS INTANGIBLE COPIES

Whether legislatures and courts should differentiate between tangible and intangible copies seems more questionable from a policy perspective. Copyright owners and consumers find downloading more convenient and cheaper than other distribution forms, but the basic transaction terms are often identical, and consumers use downloaded copies similarly to copies they buy on disks. Copyright statutes do not define or expressly address downloads differently from other copies.

Factually, it seems questionable whether downloaded copies of digital goods are less tangible than copies on storage media. Components of software have corporeal form.<sup>252</sup> The corporeal body of software takes “the form of massive strings of ‘bits’.”<sup>253</sup> When the software is embodied on a CD, each “bit” is represented by the presence or absence of a pit on the surface of the CD.<sup>254</sup> When software is embodied in a less permanent form, like the hard disk of a computer, the corporeal body takes the form of a “series of magnetic switches, positioned at either ‘I’ or ‘O’.”<sup>255</sup> Even in cases of electronic transfers or downloads, the software program is still corporeal as it exists in the form of

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250. Case C-128/11, *UsedSoft GmbH v. Oracle Int'l Corp.*, 2012 E.C.R. I-0000, 2012 O.J. (C 287) 16.

251. Determann & Nimmer, *supra* note 63, at 165–72.

252. Sarah Green & Djakhongir Saidov, *Software as Goods*, 2007 J. BUS. L. 161, 165.

253. *Id.* at 165.

254. *Id.*

255. *Id.*

a “series of electrical pulses.”<sup>256</sup> A closer look reveals changes of matter before, during, and after the download process on the supplier’s server, on cables and connections that make up the Internet, and on the buyer’s device.

Like computer software, downloaded audiobooks, ebooks, and music files consist of physical matter.<sup>257</sup> CDs containing music files are stamped with pits in which the information (the music) is stored.<sup>258</sup> These pits differentiate between a “1” and a “0” bit of the digital music sequence that is read by a laser.<sup>259</sup> The sound is then played accordingly. These pits are physically stamped onto the CD and are material objects.<sup>260</sup> Information stored in a magnetic hard drive and solid-state drive is stored in the form of electrical and magnetic signals, so-called “fields.”<sup>261</sup> They are the electromagnetic representation of material pits.<sup>262</sup> Such electrical charges and magnetic fields can be considered as material objects rather than being fixed in the magnetic hard drive or solid-state drive.<sup>263</sup> A music file takes up space on the drive of a computer and can be moved from one place to another, just like computer software. Electromagnetic waves and electrical lines move the fields from one drive to another.<sup>264</sup>

The court in *Hamm Audiobooks* claimed that a download consists of a transfer of instructions to the purchaser’s operating system on local physical memory.<sup>265</sup> In contrast to transfers of tangible media, the court emphasized that in the context of downloads, no “substance” is being shifted.<sup>266</sup> The court followed the prevailing opinion in Germany that files—not embodied on a tangible medium—are intangible copies of works.<sup>267</sup> But other courts have

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256. *Id.*

257. Or, as the Supreme Court of Louisiana in *South Central Bell Telephone Co. v. Barthelemy* stated, they consist of a “certain arrangement of matter . . .” 643 So. 2d 1240, 1246 (La. 1994).

258. James Huguenin-Love, *Song on Wire: A Technical Analysis of ReDigi and the Pre-Owned Digital Media Marketplace*, 4 N.Y.U. J. INTELL. PROP. & ENT. L. 1, 15 (2015).

259. *Id.*

260. *Id.* at 15.

261. *Id.* at 17.

262. *Id.*

263. *Id.* at 20.

264. *Id.* at 17.

265. Oberlandesgericht Hamm [OLG Hamm] [Higher Regional Court of Hamm] May 15, 2014, ZEITSCHRIFT FÜR URHEBER UND MEDIENRECHT—RECHTSPRECHUNGSDIENST [ZUM-RD] 715 (724), 2014 (Ger.).

266. *Id.*

267. See Bundesgerichtshof [BGH] [Federal Court of Justice], Oct. 13, 2015, NEUE JURISTISCHE WOCHENSCHRIFT [NJW] 1094 (1095), 2016 (Ger.) Landgericht Konstanz [LG Konstanz] [Regional Court of Konstanz] May 10, 1996, NEUE

held that software, at least for purposes of taxability, qualifies as tangible personal property. In the United States, the Supreme Court of Louisiana,<sup>268</sup> for example, stated that software itself is not merely knowledge, but a certain arrangement of matter that makes a person's computer perform a desired function, and that "this arrangement of matter, physically recorded on some tangible medium, constitutes a corporeal body."<sup>269</sup> The court wrote that software is "knowledge recorded in a physical form which has physical existence, takes up space on the tape, disc, or hard drive, makes physical things happen, and can be perceived by the senses."<sup>270</sup>

The court in *ReDigi* assumed, without much discussion, that a consumer can acquire ownership of a downloaded music file copy as much as of a copy on disks as a matter of U.S. copyright law. Where German courts differentiate between tangible and intangible copies, they seem to be less driven by sound policy considerations, and more by a need to distinguish cases that do not involve software from *UsedSoft v. Oracle* and its unreasonable consequences.

### C. SOFTWARE VERSUS OTHER DIGITAL GOODS

From a policy perspective, it is compelling that courts in the United States and in the European Union distinguish between software and other digital

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JURISTISCHE WOCHENSCHRIFT [NJW] 2662, 1996 (Ger.); CHRISTINA STRESEMANN ET AL., MÜNCHENER KOMMENTAR ZUM BÜRGERLICHEN GESETZBUCH: BGB [MUNICH COMMENTARY ON THE CIVIL CODE] § 90 at 25 (7th ed. 2015) ("Electronic data and computer programs are, as such, not things, since they lack the definable physicality which is characteristic of the conceptual concept."); *id.* (noting that when a file is embodied in a DVD or other tangible medium however, it is treated as a tangible good); *see also* Bundesgerichtshof [BGH] [Federal Court of Justice] Nov. 15, 2006, NEUE JURISTISCHE WOCHENSCHRIFT [NJW] 2394, 2007 (Ger.) (regarding computer programs stored on a physical data carrier).

268. S. Cent. Bell Tel. Co. v. Barthelemy, 643 So. 2d 1240, 1241 (1994). The Supreme Court of Louisiana mainly followed the dissenting opinion of Judge Byrnes in the lower court who argued that "tangible" should be understood to encompass "all things that make up our physical universe, as opposed to 'incorporeals' which are limited to the non-physical world of legal concepts." *See* S. Cent. Bell Tel. Co. v. Barthelemy, 631 So. 2d 1340, 1348 (La. Ct. App. 1994) (Byrnes, J., dissenting) ("The codal terms 'corporeal' and 'incorporeal' ante date the advent of computer technology.").

269. *S. Cent. Bell*, 643 So. 2d at 1246.

270. *Id.* at 1241, 1246. The court also stated that the nature of the software's physical manifestation as corporeal or tangible is not affected by the possibility to transfer it to another medium such as a disk or a computer hard drive, as long as the software is stored in physical form on some tangible object. *See id.* at 1241, 1248. However, the court did not decide whether it would consider construe software as tangible where a physical recording of the software would be kept by the service provider and would be transferred to the customer through telephonic transmission, since that issue was not raised by the facts of the case. *See id.* at 1248 n.7.

goods with respect to copyright exhaustion. The value of software does not lie in creative originality, but in functionality, which copyright law is not intended to protect.<sup>271</sup> Less compelling is the direction this distinction has taken in the European Union after *UsedSoft v. Oracle*, which prescribed various unreasonable consequences without regard to statutory provisions of the EU Software Directive.<sup>272</sup>

#### D. TYPE AND VALUE OF STORAGE MEDIUM

In practice, copyright owners do not usually try to restrict a resale of valuable storage media such as cars, computers, or smartphones based on arguments that digital goods on such items are only licensed, not sold, even though many such items come with license terms that do actually prohibit resale. But from a copyright policy perspective, such distinction seems questionable because copyright law protects copyrighted works and copies without regard to the value of media on which they may happen to reside. If copyright owners are entitled to control whether they part with copies per sale or “license only” with respect to software on cars, then they should also be entitled to “license only” software on disks they sell. Rights under copyright law and personal property laws are not always fully aligned because it is possible and appropriate that one lawfully owns a device on which a rented video clip or pirated music file may reside.

#### E. DOMESTIC VERSUS INTERNATIONAL SALES

Countries decide based on foreign trade policy considerations whether they want to allow imports of copies first made or sold abroad. Copyrights and other property rights are territorial in nature and, therefore, neutral on this point. The European Union pursues a closed policy in this respect (“fortress Europe”<sup>273</sup>), and the United States opened up only recently based on the *Kirtsaeng* decision of the U.S. Supreme Court, which overruled Congress and longstanding government policy—policy that had opposed the concept of international exhaustion to enable copyright owners to apply different pricing in different territories.<sup>274</sup>

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271. See *supra* Part IV.

272. Lothar Determann & Bill Batchelor, *Used Software Sales and Copyright Exhaustion*, 17 ELECTRONIC COM. & L. REP. (BNA) 2149 (2012).

273. See Lothar Determann, *Adequacy of Data Protection in the USA: Myths and Facts*, 6 INT’L DATA PRIVACY L. 244, 247–48 (2016) (describing “protectionist data transfer restrictions” as part of a regulatory scheme colloquially called “Fortress Europe”).

274. *Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U.S. 519, 573–74 (2013).

## F. OUTLOOK

In the United States, efforts are under way to revive *ReDigi*, but it seems unlikely that the substantive law on digital exhaustion will change any time soon given that it is closely aligned with the Copyright Act and not very different with respect to software and other digital goods. In the European Union, the law on digital exhaustion is very different with respect to software and other digital goods, and could change any time if the CJEU overrules German courts. Yet, on both sides of the Atlantic, it is questionable how much digital exhaustion even matters to most consumers and companies from a practical perspective. Software copyright owners have moved largely to service-based models that do not involve distribution or exhaustion under copyright law in the European Union or the United States.<sup>275</sup> Consumers increasingly enjoy movies and music via streaming services, which clearly fall outside the realm of exhaustion. To date, copyright owners have not tried on a large scale to prevent resales of cars, computers, smartphones, or other tangible products of significant value based on copyrights to digital goods installed on such products, and market forces should be strong enough to prevent such attempts.

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275. Determann & Nimmer, *supra* note 63, at 165–72; Lothar Determann, *What Happens in the Cloud: Software as a Service and Copyrights*, 29 BERKELEY TECH. L.J. 1092, 1098 (2015).

