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Knocking on the WTO's Door: International Law and the Principle of First Sale Download in *UsedSoft v. Oracle*

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Introduction

In the July 2012 decision of *UsedSoft v. Oracle*,[1] the Court of Justice of the European Union ("CJEU") held that "the right of distribution of a copy of a computer program is exhausted if the copyright holder . . . has authorized"[2] its downloading free or for compensation. This decision gives consumers purchasing and downloading software in Europe the right to resell that software as "second-hand" without seeking the authorization of the copyright holder. The ruling has enormous implications for international intellectual property law and the principle of exhaustion (or first sale rule). The case is also important from an international law perspective as it comes on the heels of efforts in the United States and the EU to pass legislation—the Anti-Counterfeiting Trade Agreement ("ACTA") and the Stop Online Piracy Act ("SOPA")—meant to protect the business model of online content providers.[3]

Once a good has been placed on the market by or with the authorization of the owner of its associated intellectual property rights, the right holder has "exhausted" his or her intellectual property rights with respect to that good. The purchaser of the good may therefore sell or pass on that good without infringing any intellectual property rights. Under the principle of *international* exhaustion, the first authorized sale of a product anywhere in the world exhausts the intellectual property rights associated with that product worldwide; under the principle of *national* exhaustion, the first sale exhausts the intellectual property rights in the country of sale only.

The EU has adopted a *regional* exhaustion regime for copyrights under which the first sale of copyrighted goods exhausts those rights throughout the Union. Article 4(2) of the Computer Programs Directive[4] states that the first sale in the Union "of a copy of a program by the rightholder or with his consent shall exhaust the distribution right within the [Union] of that copy, with the exception of the right to control further rental of the program or

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DOCUMENTS OF NOTE

UsedSoft v. Oracle

Directive 2009/24/EC

Directive 2001/29/EC

Opinion of Advocate General

Anti-Counterfeiting Trade Agreement Public Predecisional/Deliberative Draft

Agreement on Trade-Related Aspects of Intellectual Property Rights

WIPO Copyright Treaty

ORGANIZATIONS OF NOTE

European Commission

Court of Justice of the European Union

World Trade Organization

World Intellectual Property Organization

a copy thereof."[5] In other words, sale of computer software by or with the consent of the copyright holder "exhausts the distribution right within the European Union."[6] Like some courts in other jurisdictions,[7] the CJEU grappled in *UsedSoft v. Oracle* with the application of the concept of exhaustion to the digital context given the growth in internet commerce.

Background

Oracle Corp., a global developer and distributor of software, sued the German company UsedSoft GmbH, which specialized in selling "second-hand" or "used" software. At issue was Oracle's "client-server" software,[8] which UsedSoft resold to its customers as "already used." UsedSoft promoted the "used" software as "current."[9] UsedSoft's customers had to download (free) the client-server software directly from Oracle's website and then purchase "used" license key codes from UsedSoft in order to activate the software. In addition, UsedSoft encouraged its customers who were already in possession of the downloaded program to copy it to additional work stations and then purchase further licenses from UsedSoft.

Oracle won an application in the Munich Regional Court for Usedsoft to cease selling Oracle's used software licenses. Usedsoft appealed to the German Federal Court of Justice. The German Federal Court of Justice stayed the proceedings and asked the CJEU to clarify who should be considered a "lawful acquirer" of a downloaded program, and under what conditions the downloading from the internet of authorized software exhausts the right of distribution of that copy in the European Union.

Downloading as First Sale Under EU Law

The CJEU held that the "transfer by the copyright holder to a customer of a copy of a computer program," along with the conclusion of a user license agreement, constituted a "'first sale . . . of a copy of a program' within the meaning of Article 4(2) of [the Computer Programs] Directive."[10] According to the Court, a broad meaning of "sale" is required:

> [I]f the term "sale" within the meaning of Article 4(2) of [the Computer Programs Directive] were not given a broad interpretation as encompassing all forms of product marketing characterized by the grant of a right to use a copy of a computer program, for an unlimited period, in return for payment of a fee designed to enable the copyright holder to obtain a remuneration corresponding to the economic value of the copy of the work of which he is the proprietor, the effectiveness of that provision would be undermined, since the suppliers would merely have to call the contract a "license" rather than a "sale" in order to circumvent the rule of exhaustion and divest it of all scope.[11]

The Court dismissed Oracle's argument that it provided software only for free and not for sale (despite the fact that the "free" software could not be activated without a user license agreement). According to the Court, the downloading effected a transfer of ownership, and the user license agreement and the downloaded software should be seen as one "indivisible whole," as it would be pointless if the software could not be used.

The Court equated downloadable software to a DVD or CD-ROM (i.e., physical goods), concluding that the medium in which the software was delivered did not affect the outcome. The Computer Programs Directive draws no distinction between tangible and intangible

goods once the relevant good is sold to a “lawful acquirer.”

> It must be considered that the exhaustion of the distribution right under Article 4(2) of [the Computer Programs Directive] concerns both intangible copies of a computer program, and hence also copies of programs which, on the occasion of their first sale, have been downloaded from the internet onto the first acquirer’s computer.[12]

By concluding that a first sale of a downloaded copyright product exhausted the distribution right in that product based on the Computer Programs Directive, the Court sought to uphold the free movement of goods in the EU, thus eliminating potential market restrictions. Limiting the principle of first sale to other mediums, while excluding downloadable software, would allow the right holder to claim compensation for sales and distribution subsequent to the first download.

Implications for International Intellectual Property Law

The opinion of the Advocate General, delivered on April 24, 2012, to assist the CJEU, found that the principle of exhaustion should have a uniform interpretation and that a restricted interpretation of the term “sale” would undermine the principle of exhaustion.[13] The Advocate General invoked international law to determine the meaning of “sale of a copy” in Article 4(2) of the Computer Programs Directive because the Directive does not define the term. According to the Advocate General, the term “sale of a copy” should be interpreted in “the context in which it is used” and taking account of “the objectives pursued both by [the Computer Programs Directive] and by international law.”[14] The Advocate General added that, in the context of international law, Article 6(2) of the “Joint Declarations on the WIPO [World Intellectual Property Organization] Copyright Treaty” was also important in determining the exhaustion of digital goods.[15] In the view of the Advocate General, EU law is international rather than regional in scope, and therefore EU law should be interpreted in light of international legal provisions.

Some of the key international intellectual property agreements, such as the Berne and Paris Conventions,[16] are partially incorporated in the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS Agreement”) of the World Trade Organization (“WTO”). Other international agreements, like the WIPO Copyright Treaty,[17] are implemented in other European legislative instruments.[18] Under Article 6 of the WIPO Copyright Treaty, which deals with the right of distribution, right holders “enjoy the exclusive right of authorizing the making available to the public of the original and copies of their works through sale or other transfer of ownership.”[19] In addition, Article 6 states that the contracting parties are free “to determine the conditions, if any, under which the exhaustion of the right . . . applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author.”[20]

Article 6 of the WIPO Copyright Treaty is implemented by the EU through the Copyright Directive.[21] The Court in *UsedSoft v. Oracle* essentially equated distribution with first sale, concluding therefore that the distribution of software amounts to a “first sale” within the meaning of Article 6(1) of the WIPO Copyright Treaty.[22]

The TRIPS Agreement does not expressly mandate any particular approach to the principle of exhaustion. Article 6 specifies that, “[f]or the purposes of dispute settlement,” and subject to the non-discrimination provisions in Articles 3 (national treatment) and 4 (most-favoured-nation treatment), “nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.” The Doha Declaration on the TRIPS Agreement and Public Health reiterates that each WTO Member is “free to establish its own regime for

exhaustion without challenge, subject to the MFN [most-favoured-nation] and national treatment provisions."[23] Thus, within those parameters, each WTO Member is free to decide whether to adopt a rule of national or international exhaustion within its own intellectual property system.[24]

In light of *UsedSoft v. Oracle*, could the regional first sale download doctrine applicable to copyrighted material in the EU serve as a catalyst for a global approach to electronic commerce? That doctrine applies to software under the Computer Programs Directive in Europe, including the twenty-seven nations, comprising a huge trading member of the WTO. The EU's approach could therefore serve to foster increased liberalization of trade in goods within the WTO, including those sold via the internet, recognizing the parallels between digital and physical products. In this regard, the *UsedSoft v. Oracle* ruling has catapulted the principle of exhaustion beyond its contemporary interpretations.

Conclusion

The ruling in *UsedSoft v. Oracle* brings into focus the nature of exhaustion in connection with digital copyrighted goods and the characterization of such goods in international and regional legal instruments. The sale of digital goods protected by copyright will continue to grow as internet commerce expands. For consumers, the *UsedSoft* judgment is a welcome reaffirmation of the free movement of goods in the EU. A global principle of international exhaustion through first sale download would similarly provide benefits for consumers through increased liberalization of digital goods. For example, the provision relating to distribution in the 2012 Beijing Audiovisual and Performers Rights Treaty[25]should be interpreted as in *UsedSoft v. Oracle*. The case provides a boost to the distribution of digital goods, and in this instance, the EU has elevated its approach to exhaustion from a regional principle to a matter of concern for international legal actors such as the WTO. The decision in *UsedSoft v. Oracle* thus brings the principle of exhaustion to the door of the WTO once again.

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Endnotes:

[1] Case C-128/11, UsedSoft GmbH v. Oracle Int'l Corp. (C.J.E.U. July 3, 2012).

[2] *Id*. ¶ 72.

[3] Angus MacCulloch & Albert Sanchez, *The CJEU, Copyright, and the "First Sale" Doctrine*, EUTOPIA Law Blog (July 10, 2012), http://eutopialaw.com/2012/07/10/the-cjeu-copyright-and-the-first-sale-doctrine/.

[4] Directive 2009/24/EC, of the European Parliament and of the Council of 23 April 2009 on the Legal Protection of Computer Programs, 2009 O.J. (L 111) 16.

[5] *Id*. art. 4(2).

[6] *UsedSoft GmbH*, *supra* note 1, ¶ 36.

[7] *See*, *e.g*., Costco Wholesale Corp. v. Omega, S.A., 131 S. Ct. 565 (2010).

[8] *UsedSoft GmbH*, *supra* note 1, ¶ 24; *see also* Opinion of Advocate General Yves Bots, ¶ 18 (Apr. 24, 2012), *available at* http://curia.europa.eu/juris/document/document.jsf?text=&docid=121981&pageIndex=0&doclang=de&mode=req&dir=&occ=first&part=1&cid=661328 [hereinafter Advocate General Opinion].

[9] *UsedSoft GmbH*, *supra* note 1, ¶ 25. The remaining discussion in this section and the next is based on the case and should be consulted for reference purposes.

[10] *Id*. ¶ 48.

[11] *Id*. ¶ 49.

[12] *Id*. ¶¶ 59, 51.

[13] *See*, Press Release, Court of Justice of the European Union, No. 49/12 (Apr. 24, 2012), *available at* http://curia.europa.eu/jcms/upload/docs/application/pdf/2012-04/cp120049en.pdf (summarizing the Opinion of Advocate General).

[14] Advocate General Opinion, *supra* note 8, ¶ 51.

[15] *Id*. ¶ 69.

[16] 828 U.N.T.S. 222, 303.

[17] WIPO Copyright Treaty, Dec. 20, 1996, 36 I.L.M 65 (1997).

[18] Council Decision 2000/278/EC, 2000 O.J. (L 89) 6.

[19] WIPO Copyright Treaty, *supra* note 17, art. 6(1).

[20] *Id*. 6(2).

[21] Directive 2001/29/EC, of the European Parliament and of the Council of 22 May 2001 on the Harmonization of Certain Aspects of Copyright and Related Rights in the Information Society, 2001 O.J. (L/167) 10 [hereinafter Copyright Directive].

[22] *UsedSoft GmbH*, *supra* note 1, ¶ 52.

[23] Declaration on the TRIPS Agreement and Public Health, ¶ 5(d), WT/MIN(01)DEC/W/2 (Nov. 14, 2001).

[24] *See* John Wiley & Sons, Inc. v. Kirtsaeng, 654 F.3d 210 (2d Cir. 2011), *cert. granted*, (U.S. Apr. 16, 2012) (No. 11-697).

[25] Diplomatic Conference on the Protection of Audiovisual Performances [Beijing Treaty on Audiovisual Performances] art. 8, June 24, 2012, *available at* http://www.wipo.int/edocs/mdocs/copyright/en/avp_dc/avp_dc_20.pdf.