

Question B

To what extent does the principle of exhaustion of IP rights apply to the on-line industry?

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1. Exhaustion of IP rights

1.1 General notes

The approach undertaken by the Bulgarian legislator regarding IP rights is that each type of IP is regulated in a separate statutory act. Therefore, there is no single definition of exhaustion of IP rights and depending on the type of IP the rules of exhaustion may vary.

The following common characteristics of the principle of exhaustion of IP rights under Bulgarian law, may be derived from the effective legislation: (i) the first sale or another act of transfer of the goods, incorporating or marked with the respective IP, (ii) where the IP has been placed on/incorporated in the goods in question by or with the consent of the IP holder and (iii) the first sale or another act of transfer has been made by the IP holder or with his consent, (iv) limits the rights of the IP holder with respect to the goods in question.

However, as noted above there are also specifics so two separate approaches may be identified, namely towards (i) exhaustion of copyright and related rights and (ii) exhaustion of industrial property rights. The main difference in both approaches is that while the exhaustion with respect to copyright and related rights limits only one of the bundle of rights of the right holder, the exhaustion of industrial property rights terminates all exclusive rights (with some exceptions) of the right holder.

1.2 Exhaustion of copyright and related rights

The principle of exhaustion of copyrights and related rights is introduced in the Bulgarian copyright legislation with the adoption of the currently effective Law on Copyright and Related Rights (LCRR) in 1993.¹ In contrast to the remaining IP-related statutory instruments, the LCRR does not use the term “exhaustion” but instead uses “termination” of the right.² This however does not lead to different interpretation of the effect of the rule. For the sake of consistency, the generally accepted term “exhaustion” is used in that report, irrespective of the specific IP in question.

¹ Initially, the principle has been set in Art. 18 (4) of the law. In 2002 a separate article dealing specifically with exhaustion of rights has been adopted – Art. 18a.

² The current version of the statutory text reads as follows:

“Art. 18a. The first sale or another transaction on the territory of the Member States of the European Union made by the copyright holder or with his consent which transfers ownership in the original or copy of the work shall lead to termination of the right of their distribution on this territory, without prejudice to the right to rental.

(2) The provision of para 1 shall not affect the rights referred to in Art. 20 and Art. 22a, para 2.

(3) The provision of para 1 does not apply to cases of provision of originals or copies of the work in digital way, in respect to the materialised copies of the work made by the recipient with the consent of the copyright holder.”

The LCRR defines the exhaustion of rights in the field of copyright and related rights in Art. 18a. According to the statutory rule, the first sale or another act of transfer of ownership in the original or copy of a work, made by the copyright holder or with his consent, terminates the right of distribution of the copyright holder with respect to the original or copy in question.

Art. 18a applies to all copyright protected works, including, among others, computer programs and databases. Thus, the law does not differentiate between the different types of works.

The scope of exhaustion under the law covers any eligible transaction within the territory of the EU.³ Before accession of Bulgaria to the EU, national exhaustion was applied, as opposed to the currently effective regional exhaustion.

The exhaustion principle with respect to copyright and related rights is not unlimited. Firstly, exhaustion applies only with respect to the right of distribution, and the remainder of rights of the copyright holder remain intact. Further, the first sale or another transfer does not affect the rental right regarding the respective original(s) or copies of the work (the rental right is considered to be encompassed by the right of distribution). The resale right of the copyright holder and the right to receive remuneration for each lending of the work, are also unaffected by the exhaustion rule.

It should be noted that from the scope of the exhaustion rule are excluded online provided works with respect to the material copies of the works made with the consent of the copyright holder. For example, the exclusion would cover cases such as an e-book or computer program, licensed for use by or with the consent of the copyright holder and stored on the hard drive of a computer or another device. (Please see Section 3.2 below on the interpretation of that exclusion rule in the light of the Judgement of the CJEU on case C-128/11.)

The exhaustion rule applies accordingly also to related rights, i.e. the rights of performing artists, producers of phonograms, film producers and those of radio and TV organisations with respect to their programs.⁴

1.3 Exhaustion of industrial property rights

All of the Bulgarian statutory acts on industrial property provide for exhaustion of the respective rights with the fact of first placement on the market of the goods in question. In particular, that principle is introduced and applicable with respect to all types of industrial property⁵, recognized by the Bulgarian law. Relevant rules are contained in the legislation on trademarks⁶, industrial designs⁷, patent and utility models⁸, as well as on the topographies of integrated circuits⁹.

All of the relevant statutory acts use the same approach in defining the exhaustion of the rights in goods (products). More specifically, the first placement on the market of the respective goods (branded with a mark, or incorporating a registered design or patent/utility model or topography of

³ Considering however that on EU level exhaustion for the territory of the European Economic Area is to be applied, it may be reasonably concluded that the exhaustion rule should be interpreted as covering the territory of the European Economic Area.

⁴ The law uses a specific legislative technique extending application of that rule to the listed types of related rights by way of reference, made in respectively in Art. 84, Art. 90, Art. 90v and Art. 93 of the LCRR.

⁵ Except for geographical indications, which is understandable in view of the characteristics and function of that type of industrial property.

⁶ Art. 15 of the Law on Marks and Geographical Indications

⁷ Art. 21 of the Law on Industrial Designs

⁸ Art. 20a of the Law on Patents and Registration of Utility Models

⁹ Art. 18 of the Law on the Topographies of Integrated Circuits

integrated circuits or similar) leads to exhaustion of the respective IP regarding such goods (products), provided they have been placed by or with the consent of the IP proprietor.

The trademarks and industrial designs legislation to a great extent reiterate the respective texts of Directive 2008/95/EC to approximate the laws of the Member States relating to trade marks (Directive 2008/95/EC) and of Directive 98/71/EC on the legal protection of designs (Directive 98/71/EC). In addition to the rule corresponding to Art. 15 of Directive 98/71/EC, the Bulgarian industrial designs act adopts the approach in para. 2 of Art. 7 of Directive 2008/95/EC, providing that the exhaustion rule does not cover cases, where the goods are altered. Accordingly, the exhaustion rule with respect to both trademarks and industrial designs is not unlimited and the exclusive rights of the trademark/industrial design proprietor would continue to apply with respect to goods, put on the market by or with his consent, which are subsequently altered. The exhaustion rule on trademarks would also not apply for goods, which condition is impaired after they were placed on the market.

The patent and utility models legislation provides that the exclusive patent/utility model rights do not cover actions with respect to a product protected with a patent/utility model, which has been put on the market on the territory of the European Economic Area (EEA) by or with the consent of the patent/utility model proprietor. There are also special rules with respect to rights in biological material, plant propagating material and breeding stock or other animal reproductive material, whereunder limitations on the exhaustion rule are provided in relation to the listed types of materials.

Under the currently effective legislation, placement on the Bulgarian market of a product incorporating topography of integrated circuits, leads to exhaustion of the rights with respect to the product in question, for the territory of Bulgaria only. The law does not provide for any limitations or exceptions to that rule.

All of the referenced statutory acts, except for one, adopt the principle of regional (Community) exhaustion, where the rights are considered exhausted for the territory of the EEA with the fact of first placement on the market of any of the EEA Member States. National exhaustion is applied regarding topographies of integrated circuits, where placement on the Bulgarian market leads to exhaustion of the rights for the territory of Bulgaria only. The national exhaustion principle, as embedded in the legislation on topographies of integrated circuits, has not been changed to such of regional exhaustion, what has been done in relation to all other IP in the context of accession of Bulgaria to the EU. Thus, the legislation in that part appears to be incompliant with EU law. In the light of the Constitutional rule that all international treaties to which Bulgaria is a party, which have been duly ratified and promulgated in the State Gazette, have priority to domestic statutory acts that contradict them, and considering the extensive case law of the CJEU on the rules on free movement of goods, as laid down in the EU founding treaties¹⁰, it may be concluded that despite this omission of the Bulgarian legislator, there are normative grounds for application of regional exhaustion with respect to topographies of integrated circuits, as well. Nevertheless, amendment of the relevant statutory rule to address regional (community) exhaustion is highly recommendable.

1.4 Bulgarian court practice on exhaustion of IP rights

1.4.1 Exhaustion of copyright and related rights

¹⁰ With respect to Art 28-30 of the

There is very limited practice of the Bulgarian courts of law, discussing the rule of Art. 18a of the LCRR. Exhaustion of the right of distribution has been mainly addressed in the context of criminal proceedings for crimes against copyright. In particular, in several cases the courts of law have confirmed that Internet clubs, providing to its clients the possibility to play computer games, installed on computers available in the clubs, actually rent computer programs (games) and therefore, the exhaustion rule under the law does not cover such cases.¹¹ No court practice is available, where exhaustion of copyright/related rights has been among the main subject matters of the dispute and hence, it remains unclear how the Bulgarian courts would apply the rule to more complex cases (e.g. cases of online uses of works).

1.4.2 Exhaustion of industrial property rights

Exhaustion of industrial property rights has been examined by the Bulgarian courts, mainly in cases decided the last decade. Publicly available cases where exhaustion of rights has been addressed relate to trademark rights in the context of parallel imports. In an interpretive decision of 2012¹², the Supreme Court of Cassation (SCC) expressly examined the principle of exhaustion of trademark rights under Art. 15 of the Law on Marks and Geographical Indications (LMGI). In its decision, the SCC ruled that the principle of exhaustion of rights applies and has relevance with respect to genuine goods only. It also stated that this principle applies to the specific goods, put on the market. The SCC also noted that in view of the fact that exhaustion of rights applies only to genuine goods, the exhaustion rule is not and may not be of relevance for the examination of a trademark infringement claim under the LMGI. The latter conclusion is grounded on a prior interpretive SCC decision, in which it held that “trademark infringement”, as defined in the LMGI in relation to available civil claims for trademark infringements, covers only cases of counterfeit goods.

The above addressed interpretive decisions mark some quite controversial developments of the court practice on trademark infringement cases in Bulgaria. More specifically, with an interpretive decision of 2009¹³ the SCC supported a position highly criticized by the academic community that to the extent commercial use of genuine goods is concerned, such goods are excluded from the scope of the statutory definition of trademark infringement for the purposes of trademark civil claims, regulated by the LMGI. An attempt to amend that position was made in 2011, but with the interpretive decision of 2012, the SCC re-confirmed its original position, stating that such position does not contradict to the case law of the CJEU nor to the secondary legislation of the EU. The SCC however clarified that its decision relates only to civil claims available in the event of trademark infringement under the LMGI and not to the rest of the enforcement mechanisms available to a trademark proprietors under the LMGI - e.g. preliminary measures or measures for collection of evidence. To the extent any use of trademarks in relation to genuine goods is concerned, the SCC stated that the trademark proprietor may seek enforcement of its rights on grounds of the general contract and/or tort rules.

To sum up, since exhaustion of trademark rights is relevant only with respect to genuine goods, the interpretive “guidance” of the SCC, which are binding on the lower instance courts and the panels of SCC, mean that the question of exhaustion of rights will be relevant only in the context of general court proceedings for delict, representing unauthorised use of a trademark.

¹¹ Decision on criminal case No. 2556 of 2009 of Plovdiv Regional Court

¹² Interpretive Decision No. 1/2009 on interpretive case No. 1 of 2008 of the General Assembly of the Commercial Chamber of the Supreme Court of Cassation. Interpretive decisions are binding upon the lower instance courts, as well as the panels of the Supreme Court of Cassation.

¹³ Interpretive Decision No. 1/2009 on interpretive case No. 1 of 2008 of the General Assembly of the Commercial Chamber of the Supreme Court of Cassation

2. “Traditional industry” / “On line industry”

The IP legislation does not differentiate between traditional and on-line industry. Certainly, with the emerging of new technologies, the Bulgarian IP legislation (mainly copyright legislation) has been respectively amended to include provisions that expressly address rights and situations, related to internet (e.g. express inclusion of economic right to cover digital transmission of works, specific rules on computer programs, etc.)

Bulgarian legislation does not provide a specific definition for “on-line industry”. General rules related to e-commerce are contained in the Law on E-Commerce (LEC), which implements Directive 2000/31/EC on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (E-Commerce Directive). The law defines “e-commerce” as provision of a service of the information society, where “information society service” is defined as a service, normally provided for remuneration, at a distance, by electronic means and at the individual request of the service recipient. Given the broad definition, the concept of e-commerce comprises m-commerce and all other activities related to supply of goods or services through a digital platform or distance means of communication.

The provisions of LEC on exemption of liability of service providers reiterate the rules of the E-Commerce Directive, but also set forth additional safe harbours. In particular, the LEC contains express rules on hyperlinking and automated search engine services.

So far there is no court or administrative practice of note, as the limited published cases on LEC relate mainly to unsolicited commercial communication and the requirements for identification of providers of information society services.

3. Exhaustion of IP rights in “on line industry”

3.1 Bulgarian court practice on exhaustion of IP rights in “on line industry”

As noted in Section 1.4.above, the Bulgarian court practice on exhaustion of IP rights is very limited. In most of the publicly available court decisions addressing the principle of exhaustion of rights, the exhaustion rule was only mentioned, without detailed discussion of any specifics of its application to different objects or environments.

There are no publicly available court decisions on on-line use of copyright protected works, where the principle of exhaustion of the right of distribution is addressed or taken into account.

In the field of on-line use of industrial property there are a few decisions discussing offers and sale on the internet of goods, branded with trademarks of third persons and related use of such trademarks on the respective websites for advertising purposes. In the light of the two interpretive decisions of the SCC, addressed in Section 1.4.2 above, the main subject of examination by the courts in those cases is the questions whether the goods offered for sale are genuine or not. In all cases, after a conclusion that genuine goods have been offered on-line, the courts have found that there is no trademark “infringement” at least as far as the rule of the LMGI are concerned.¹⁴ The question on exhaustion of rights was not examined, since it was deemed irrelevant to the respective

¹⁴ Decision No. 133 of 15 January 2013 on commercial case No. 1055/2010 of the Supreme Court of Cassation, First Chamber, 3-judge panel

proceedings.¹⁵ Until the date of this report, no court decisions are available on claims for damages in tort due to trademark infringement, where genuine goods were involved.

3.2 Article 18a, para. 3 of the LCRR in the light of the judgement of CJEU on Oracle Case C-128/2011

It has already been noted in Section 1.1 above, that the exhaustion rule of Art. 18a of the LCRR applies to all types of works within its scope, including among others, computer programs. Paragraph 3 of that article to a great extent reiterates the wording of Recital 29 of Directive 2001/29/EC on the harmonisation of certain aspects of copyright and related rights in the information society (Information Society Directive). In particular, the law says that the principle of exhaustion of the distribution right does not apply with respect to the material copies of a work, made by the user with the consent of the copyright holder, when the work has been provided to the user online (digitally).

On the other hand, on argument that “Directive 2009/24..... constitutes a *lex specialis* in relation to Directive 2001/29” (para. 56), the CJEU has ruled that the limitation of the scope of the rule of exhaustion (on-line services excluded), as provided in the Information Society Directive, does not apply to computer programs, given that the exhaustion rule of Directive 2009/24/EC on the legal protection of computer programs (Computer Programs Directive) prevails as *lex specialis*. Based on that and the interpretation of Art. 4, para 2 of the Computer Programs Directive, the CJEU has concluded that “the right of distribution of a copy of a computer program is exhausted if the copyright holder who has authorised, even free of charge, the downloading of that copy from the internet onto a data carrier has also conferred, in return for payment of a fee intended to enable him to obtain a remuneration corresponding to the economic value of the copy of the work of which he is the proprietor, a right to use that copy for an unlimited period” (para. 72).

It is clear from the above, that the rule of Art. 18a, para. 3 of the LCRR, with respect to exhaustion of the distribution right regarding computer programs, contradicts to the interpretation of the CJEU on the exhaustion principle, as embedded in the Computer Programs Directive. Thus, it may be concluded that the exhaustion rule regarding computer programs, has not been implemented correctly in the Bulgarian LCRR.

As of the date of this report, there are no Bulgarian court decisions available, which discuss the right to distribution with respect to copies of works downloaded on-line, including specifically with respect to computer programs. In view of the fact that the norm of Art. 18a, para. 3 is effective, and as such binding on the territory of Bulgaria to all concerned subjects, as well as on the courts, it may not be expected that Bulgarian courts would apply the interpretation provided by the CJEU in Case C-128/2011, before Art. 18a, para. 3 of the LCRR is amended.

Therefore, it is recommendable that the rule of Art. 18a, para. 3 of the LCRR is amended to reflect the difference in the application of the exhaustion principle to computer programs, downloaded online, and other works.

3.3 Possibility contractually to restrict the usage of works, with respect to which the distribution has been exhausted

¹⁵ It is interesting to note, that after concluding that genuine goods have been offered online, the courts in all mentioned cases cited the rule that there is no trademark infringement. The unauthorised use of others' trademarks for advertisement purposes was not examined in detail and only a general conclusion is made, that since the cases concern offers for sale of genuine goods, the use of others' trademarks to offer such goods (i.e. the advertisement purposes of the use), does not constitute trademark infringement under the LMGI.

There is no available Bulgarian court practice on the validity of contractual limitations to the distribution right regarding works, with respect to which this right has been exhausted by virtue of the law, i.e. on post-sale restrictions.

It should be noted that the principle of exhaustion is a mandatory rule of law, from which no deviation by means of contractual stipulation is permissible. On grounds of the fact that the imposition of restrictions on transfer after exhaustion of the distribution rights would actually achieve an effect, contrary to the exhaustion principle, such contractual limitations should be considered void due to contradiction with a mandatory rule of law.

4. IP rights and on line industry: infringement and remedies

4.1. There is a single concept on infringement of IP rights

The Bulgarian legislation does not differentiate between on-line infringement and traditional infringement of IP rights. Therefore, the same rules apply to IP rights infringement, irrespective of whether performed in the digital or traditional environment.

Further, no difference may be established in the approach of the Bulgarian courts to infringements performed online and offline. Indeed, in the few available court decisions concerning infringement of copyright on the internet, the courts have examined the economic right, specifically created to answer the digital realities and in particular the right to digital transmission¹⁶. Apart from that, cases of online and offline infringements do not feature any difference in the collection and examination of evidence, or the application of the statutory rules. Accordingly, the courts follow the same approach in deciding both types of cases.

4.2. Remedies available in case of an “on-line infringement”

Given there is no differentiation in the law between online and offline infringements, the remedies available under the law, should be accordingly applied and used to infringements performed in both environments.

Generally, the remedies available under the IP legislation to an IP holder in the event of infringement of his rights, are¹⁷: (i) civil action - for ascertaining of the fact of infringement, injunction ordering discontinuation of the infringement, and compensation for damages suffered; (ii) criminal prosecution; (iii) administrative enforcement – imposition of monetary sanctions by the competent authorities and injunction ordering discontinuation of the infringement, or (iv) border control measures. Clearly border control measures are not available for online infringements. As for the rest of the enumerated types, each of them may be applied to infringements made online. The main difference is that the course of action mentioned in “i” above is initiated by the right holder and the burden lays on the right holder to prove that its rights have been infringed (as well as the actual amount of damages suffered – if claimed). With the options under “ii” and “iii” above the right holder needs only to inform the competent authorities about an alleged infringement if its IP rights and it will be for the competent authorities to investigate the case, collect evidence, etc. On

¹⁶ The LCRR determines this right as “the provision of access to unlimited number of persons to works or parts thereof, by wire or wireless means, where access may be made from a place and at a time, individually chosen by the individuals.”

¹⁷ The statutory acts regulating the different types of IP provide for some IP specific remedies, e.g. civil claim for destruction of counterfeit goods, which however seem to be irrelevant for the present report.

the other hand, since the IP holder would not have a leading role, he will have only very limited possibilities to influence the developments of the relevant proceedings.

Based on the available court practice, online infringements of copyright have been mainly addressed in a few criminal proceedings¹⁸. A reason for that seems to be the fact that the police and investigating authorities have a broad range of powers to investigate, and all state bodies and private persons are under the obligation to provide them any required information and documentation they have. Thus, criminal proceedings prove more effective in identifying who, when and how performed an online infringement (qualifying as a crime), when compared to civil action, where the burden of proof is on the plaintiff, who normally has limited means for collecting evidence and information.¹⁹ A difficulty in the context of criminal proceedings is the fact that under Bulgarian law only individuals may bear criminal liability. Given that most business activities nowadays are conducted by legal entities, the mentioned specifics require additional efforts in identifying the individual or individuals, who have performed the respective infringing acts, through a legal person.

The limited court practice concerning infringement of industrial property relates to use of others' trademark on the internet. The subject matter of such proceedings have been mainly offers for sale and sale of goods online and use in advertisements. The approach of the courts in examining and deciding such claims does not differ in any aspect from that applied to traditional infringements. Please refer to Section 3.1 above on a brief overview of the available court practice on trademark infringements online.

4.3 Preliminary (interim) proceedings with respect to IP infringements

The preliminary measures available under Bulgarian IP legislation do not differentiate between the environment of the alleged infringement (online or offline). Imposition of preliminary measures may be requested prior to initiating civil action or in the course of already pending proceedings.

The main difficulty in obtaining a preliminary injunction, especially before initiating civil action, is the requirement under the law to present to the courts sufficient evidence on the alleged infringement. As mentioned in Section 4.2. above, lack of sufficient evidence on infringements performed online it is usually the main hurdle to the success of a civil claim.

5. Conclusion and recommendations: your opinion

Under Bulgarian law the principle of exhaustion of rights exists with respect to all types of IP. With one exception, Bulgaria applies regional exhaustion, where the first transaction on the territory of an EEA Members State by or with the consent of the right holder, precludes him from the possibility to object to further use - regarding industrial property, and further distribution – regarding copyright and related rights, of the goods in question.

Bulgarian legislation does not contain different rules on exhaustion in traditional and on-line environment. There is one single rule in the copyright and related rights legislation, addressing on-line provision of works, whereunder no exhaustion of distribution right occurs regarding the material copy of an on-line provided work, made by or with the consent of the right holder. Since this rule applies to all copyright protected works, in the light of the judgement of CJEU on Oracle

¹⁸ Mainly in relation to the activities of torrent sites.

¹⁹ Indeed, for the purposes of collection of evidence, the law entitles the claimant to request provision of evidence and information from the defendant and third persons. This procedural possibility however, is not that productive, because it does not have the effect of surprise and also in practice the possibility of the claimant to make multiple of such requests, depending on the obtained or provided information, is not unlimited.

Case C-128/2011, it appears that the exhaustion principle in relation to computer programs has not been implemented correctly in the Bulgarian LCRR. Therefore, it is recommendable that the LCRR (Art. 18a, para. 3) is amended to reflect the difference in the application of the exhaustion principle to computer programs and other types of works downloaded on-line.

There is very limited practice of the Bulgarian courts on the application of the exhaustion principle in general. There is no available practice on the application of the exhaustion principle to the on-line industry in relation to copyright and related rights. The limited amount of published court decisions on industrial property used on-line and the exhaustion of rights in that context relate to trademarks.

Further, the Bulgarian legislation does not differentiate between on-line and offline infringements of IP and the limited publicly available court practice on infringements on-line does not reveal different approach of the courts in examining and deciding cases in both environments. The main problem, with which IP holders are confronted when their rights are infringed on-line, relate to the difficulty in collecting evidence on the infringements, which is among the main reasons for the small number of claims filed to Bulgarian courts for on-line infringements.