

## 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 under English Law

In this section we discuss how exhaustion of IP rights is addressed by English law, both in the limited case law and in legislation, and how EU principles came to replace similar English concepts emanating from pre-EU case law. We consider the types of IP right which are subject to exhaustion and the few cases which have discussed the limits of the exhaustion principle.

##### 1.1 Introduction

Exhaustion of intellectual property rights was not historically part of the English legal tradition. The concept has its roots in continental jurisdictions<sup>2</sup> and is introduced by EU law into the UK, *via* Art. 34 TFEU (former Art. 28 EC Treaty), EU secondary legislation and case-law.

But in common with many legal regimes, English courts have had to grapple with the question of how far the IP holder's monopoly should extend into secondary and subsequent dealings with a protected work. Once appropriately remunerated for the work's initial commercialisation, should the IP holder control all subsequent dealings or charge additional royalties? US case law developed "first sale doctrine" to set limits to the IP holder's control of secondary dealings.<sup>3</sup> For patents, the English courts used the concept of implied licence to similar effect. In the field of trademarks UK judges reached a similar conclusion, holding that a trademark owner could prevent "*others from selling wares which are not his marked with the trade mark*", but could not prevent subsequent dealings.<sup>4</sup> Then EU derived exhaustion principles permeated English law, albeit adopted - at least in respect of regional exhaustion - with some reluctance by English judges, who were keen to read "consent to EEA marketing" broadly so as to permit parallel trade from the rest of the world.<sup>5</sup>

As commerce moves online, exhaustion and similar concepts have shown themselves poorly adapted. Online delivered products by their nature are not physical goods to which exhaustion principles are easily applied. The legal gymnastics in which the *Usedsoft* court had to engage to find exhaustion in online-delivered software illustrates the difficulties well.<sup>6</sup> But for all that, we have a clear signal from the EU Court that it will deal strictly with IP holders whose practices seem to segment the internal market. *Dicta* in *Usedsoft* and *Premier League*<sup>7</sup> suggest a court not afraid to re-cast legislation and discard long held orthodoxies to achieve a digital single market.

The ambiguity of IP rights application to online commercialisation has not helped. It can be unclear whether an online product involves copying, communication to the public, delivery of a service or distribution of a product, or all of the foregoing. So we have seen many other copyright and/or EU law concepts prayed in aid of limiting the IP holder's monopoly. In *Premier League*, the "essential subject matter" doctrine is used to set limits to the IP holders ability to restrict cross-broader availability of content. In *Meltwater* the incidental copying exception is the tool deployed to prevent

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<sup>2</sup> *United Wire Ltd v Screen Repair Services (Scotland) Ltd* (2000) 4 All ER 353, para. 16, ("An alternative explanation, adopted in European patent system, is that of exhaustion of rights" per Lord Hoffmann); *Merck & Co Inc v Primecrown Ltd* (1997) 1 CMLR 83, 119.

<sup>3</sup> *Bobbs-Merrill Co. v Straus*, 210 U.S. 339 (1908).

<sup>4</sup> *Champagne Heidsieck et cie Monopole Societe Anonyme v Buxton*, (1930) 1 Ch. 330, 339.

<sup>5</sup> The Guardian, 24 June 2005 (Mr Justice Laddie is reported to have said: "If you've found a way around Davidoff, I will personally give you a medal.")

<sup>6</sup> Case C-128/11 *UsedSoft GmbH v Oracle International Corp.* (3 July 2012, not yet published in ECR.)

<sup>7</sup> Cases C- 403/08 and 429/08, *Football Association Premier League Ltd v QC Leisure* [2011] ECR I-9083.

the IP holder frustrating linking aggregation services related to its content.<sup>8</sup> In *Svensson* a tweak to the definition of "communication to the public" permits a service aggregating links to freely available websites - since these are not directed at a "new" public, merely to the existing audience of the linked-to websites - and finds any stricter Swedish rule incompatible with EU law.<sup>9</sup>

But the case law has developed piecemeal and cautiously. Not all secondary uses are permitted, particularly where there is a risk that the IP holder will not be properly remunerated for its works. So in *TV Catchup* we see the EU Court loathe to permit secondary dealings in free-to-air broadcasts - by means of internet retransmission of free-to-air broadcasts - finding an unauthorised communication to the public resulted from retransmitting *via* different technical means, regardless of whether the same audience - and hence not a "new public" - was involved.<sup>10</sup>

## 1.2 From Implied Licence to Exhaustion

### (a) the English courts' historical approach

In early cases, English courts addressed whether the IP holder's monopoly should allow it to control legitimate secondary trade in protected products.

For copyright works, the focus was always copying<sup>11</sup> - the Statute of Anne granted the copyright owner the "*sole Liberty of printing and reprinting [the protected] Book*"<sup>12</sup> - not subsequent dealings. The right granted was to control copying, printing and reprinting of books, with no provision to benefit the owner of this right after the sale.

In relation to patents, implied licence was used to determine whether subsequent dealings were allowed. In *Betts v Willmott*,<sup>13</sup> an English retailer of patented metallic capsules purchased in France was held not to infringe the UK patent. The court concluded that "*inasmuch as [the patent holder] has the right of vending the goods in France or Belgium or England, or in any other quarter of the globe, he transfers with the goods necessarily the licence to use them wherever the purchaser pleases.*"<sup>14</sup> This implied licence could only be ousted by "*some clear and explicit agreement to the contrary to justify the vendor in saying that he has not given the purchaser his licence to sell the article, or to use it wherever he pleases as against himself*".<sup>15</sup>

*Manufactures de Glaces SA v Tilghman's patent Sand Blast Company*,<sup>16</sup> *Badische Anilin und Soda Fabrik v Isler*<sup>17</sup> and *Gillette v Bernstein*<sup>18</sup> established limits to the doctrine. A patent licensee acquired no right to sell the products manufactured under licence outside the licensed territory.<sup>19</sup> Purchasers from the licensee would infringe if they resold products outside the licensee's territory, but

<sup>8</sup> *Public Relations Consultants Association Ltd v The Newspaper Licensing Agency Ltd & Ors* (2013) UKSC 18, Case C-360/13, *Public Relations Consultants Association* (5 June 2014, not yet reported in ECR).

<sup>9</sup> Case C-466/12 *Svensson, Sjögren, Sahlman, Gadd v Retriever Sverige* (13 February 2014, not yet reported in ECR)

<sup>10</sup> Case C-607/11, *ITV Broadcasting Ltd and Others v TV Catch Up Ltd* (7 March 2013, not yet published in ECR).

<sup>11</sup> The Preamble of the Act for the Encouragement of Learning, 1710, 8 Ann., c. 19 (Eng.), the so-called Statute of Anne, reads: "*Whereas Printers, Booksellers, and other Persons, have of late frequently taken the Liberty of Printing, Reprinting, and Publishing, or causing to be Printed, Reprinted, and Published Books, and other Writings, without the Consent of the Authors or Proprietors of such Books and Writings, to their very great Detriment, and too often to the Ruin of them and their Families: For Preventing therefore such Practices for the future, and for the Encouragement of Learned Men to Compose and Write useful Books; May it please Your Majesty, that it may be Enacted ...*".

<sup>12</sup> Act for the Encouragement of Learning, 1710, 8 Ann., c. 19 (Eng.).

<sup>13</sup> *Betts v Willmott* (1871) L.R. 6 Ch. App. 239, 245. See also *Incandescent Gas Light Co. v Cantelo* (1895) 12 RPC 262, and *National Photograph Co. of Australia v Menck* (1911) AC 336.

<sup>14</sup> *Betts v Willmott* (1871) L.R. 6 Ch. App. 243 (*per* Lord Hatherley L.C.)

<sup>15</sup> *Ibid.*

<sup>16</sup> *Société Anonyme des Manufactures de Glaces v Tilghman's patent Sand Blast Company* (1884) LR 25 Ch D 1.

<sup>17</sup> *Badische Anilin und Soda Fabrik v Isler* (1906) 1 Ch 605 (High Court), (1906) 2 Ch 443 (Court of Appeal).

<sup>18</sup> *Gillette Industries v Bernstein* (1942) Ch 45.

<sup>19</sup> *Société Anonyme des Manufactures de Glaces v Tilghman's patent Sand Blast Company* (1884) LR 25 Ch D 1. ("the grant of the license to use the patent in Belgium did not imply permission to sell the manufactured article in England in violation of the Defendants' English patent").

only if licensee's restricted rights were brought to its attention. The cases still have some application in ex-EEA patented subject matter.<sup>20</sup>

As to trademarks, the English courts allowed subsequent dealings in marked goods so long as the reseller was not presenting the goods as its own. In *Champagne Heidsieck v Buxton*,<sup>21</sup> a French champagne producer prohibited sale outside France unless the bottles bore a specific label designed for ex-France sales. Heidsieck claimed that by selling the champagne for the French market, an English importer and reseller, Buxton, had led purchasers to think they were buying a different wine. The court held Heidsieck had no right to prevent resale. Buxton "*was in no wise affected by the restrictions sought to be imposed by the plaintiffs against selling or dealing with the Brut wine in England*".<sup>22</sup>

So a mix of English legal tools historically addressed subsequent dealings, some essentially similar to exhaustion and some very different, such as implied licence. Though the latter sought a similar end to exhaustion in limiting the IP holder's rights post first commercialisation, the concepts are plainly different. As a licence, implied licence doctrine permitted limitations, so long as these were express and brought to the attention of subsequent purchasers. Exhaustion breaks all links with the IP holder after first sale, whether or not against the IP holder's express wishes.<sup>23</sup>

#### (b) Exhaustion

The principle of exhaustion is now incorporated into English law in accordance with EU legislation and case law, as we set out in Annex 1.

The limited UK case law around exhaustion addressed whether products first sold outside the EEA may be lawfully imported. In a series of cases referred to the EU Court<sup>24</sup>, the English Courts tested how far a supplier may be held to give implied consent to sale into EEA when supplying counterparties based in non-EEA states. The EU Court's response was unequivocal, as the High Court held in *Levis* noted. "*[T]he clear thrust is that only express consent to subsequent marketing within the EEA will suffice*" for trademarked goods put on the market outside that area by the trademark proprietor.<sup>25</sup>

In *Zino Davidoff*<sup>26</sup>, Davidoff required its Singapore distributor not to export products abroad, and required a similar restriction be passed through to sub-dealers.<sup>27</sup> Davidoff's failure to ensure that this prohibition was passed down the supply chain, and evidence the defendant was not aware of the export prohibition, were thought persuasive indications of implied consent by the referring court. The EU Court held to the contrary "*consent must be expressed positively and that the factors taken into consideration in finding implied consent must unequivocally demonstrate that the trade mark proprietor has renounced any intention to enforce his exclusive rights*".<sup>28</sup> Implied consent "cannot be inferred from the mere silence of the trade mark proprietor,"<sup>29</sup> the lack of an explicit opposition to marketing within the EEA and/or the lack of restrictions placed on the reseller.<sup>30</sup>

<sup>20</sup> *HTC Corp v Nokia Corp* (2013) EWHC 3247, para. 169 ("*as a matter of English law, HTC cannot have acquired greater rights on purchasing the chips from [the licensee] than [the licensee] was granted by Nokia under the Agreement.*")

<sup>21</sup> *Champagne Heidsieck et cie Monopole Societe Anonyme v Buxton*, (1930) 1 Ch. 330.

<sup>22</sup> *Champagne Heidsieck et cie Monopole Societe Anonyme v Buxton*, (1930) 1 Ch. 330, 331.

<sup>23</sup> *United Wire Ltd v Screen Repair Services (Scotland) Ltd* (2000) 4 All ER 353, para. 16.

<sup>24</sup> See for instance *Levi Strauss & Co v Tesco Stores Ltd* (2002) EWCH 1556 Ch, *Zino Davidoff SA v A&G Imports Limited* (2002) Ch 109.

<sup>25</sup> *Levi Strauss & Co v Tesco Stores Ltd* (2002) EWCH 1556 Ch, para. 17.

<sup>26</sup> *Zino Davidoff SA v A&G Imports Limited* (2002) Ch 109.

<sup>27</sup> *Zino Davidoff SA v A&G Imports Limited* (2002) Ch 109, respectively paras. 37 and 39. ("*There is nothing to support the suggestion that existing case law or Community law creates a presumption that a proprietor shall be taken to object to unfettered distribution of goods which have been sold on the open market outside the EEA unless he expressly consents to such further distribution.*" "*It appears that the goods in issue here were placed on the market in circumstances where the plaintiff could have placed, but did not place, an effective restraint on their further sale and movement*")

<sup>28</sup> Case C-414/99, *Zino Davidoff SA v A&G Imports Limited*, ECR 2001 I-8691, para. 53.

<sup>29</sup> Case C-414/99, *Zino Davidoff SA v A&G Imports Limited*, ECR 2001 I-8691, para. 55.

<sup>30</sup> Case C-414/99, *Zino Davidoff SA v A&G Imports Limited*, ECR 2001 I-8691, paras. 56-57

Later cases have shown defendants equally unsuccessful in showing implied consent.<sup>31</sup> In *Mastercigars Direct Limited v Hunters & Frankau Limited*<sup>32</sup> the High Court noted that the personal use export limit of GBP 25,000 (around 8,000 cigars) strongly suggested the supplier must have been aware of heavy levels of commercial exports out of Cuba.<sup>33</sup> But this was still not sufficient to infer implied consent to import to the EEA. Moreover, the IP right holder had already showed dissent to parallel import of cigars into the UK in a previous case, so it would have been therefore extremely difficult to prove the existence of implied consent.<sup>34</sup> In *Honda v Neesam*,<sup>35</sup> the court rejected implied consent by Honda because Honda sold large quantities of new motorbikes to KJM without imposing on it any geographical resale restriction. The supplier's knowledge that its dealer was exporting did not equate to knowledge of their parallel import into the EEA.

### 1.3 Application of exhaustion principles to an online world

Finding a trade off between the IP holder's monopoly and legitimate secondary trade in the protected goods is challenging in an online world. Exhaustion principles were created with physical products in mind such as patented pharmaceuticals, copyright books and records and trademarked luxury brands.

In online commerce, there may be no physical product involved, just a stream of electrons delivering products in electronic form, such as video content, music, text or software. The online product may involve copying, distribution and communication to the public and/or the delivery of a service.

The difficulties of adapting offline principles to an online world is well illustrated by *Usedsoft v Oracle*.<sup>36</sup> There the EU Court considered whether a software licence (in effect a right to download Oracle database software from Oracle's website) could be transferred from first purchaser to a second hand user. The fact pattern was further complicated by the legal form in which the software was sold, namely a licence of the software copyright, containing strict contractual limitations. The licence was personal and limited to the first user and not transferable to any second hand user, and indeed breach of these conditions was liable to extinguish the licence.

The Court first needed to address the legal format in which software is made available. Precisely to avoid the US equivalent exhaustion principle "first sale doctrine" software is not made available by legal sale of the copyright.<sup>37</sup> Rather software vendors grant only a limited, personal licence to the end user. US courts have held first sale doctrine inapplicable to these licences.<sup>38</sup> In *ReDigi*, a US District

<sup>31</sup> See for instance *Levi Strauss & Co v Tesco Stores Ltd* (2002) EWCH 1556 Ch, *KK Sony Entertainment v Electricbirdland Ltd* (2005) EWHC 2296 Ch, *Hewlett-Packard Development Co LP v Expansys UK Ltd* (2005) E.T.M.R. 111 Ch, *Quicksilver Pty Ltd and Another v Charles Robertson (Developments) Ltd* (2005) 1 CMLR 36, and *Honda Motors Co Ltd v Neesam* (2006) EWCH 1051 Ch.

<sup>32</sup> *Mastercigars Direct Limited v Hunters & Frankau Limited* (2007) EWCA Civ 176.

<sup>33</sup> *Mastercigars Direct Limited v Hunters & Frankau Limited* (2007) EWCA Civ 176, para. 119.

<sup>34</sup> *Mastercigars Direct Limited v Hunters & Frankau Limited* (2007) EWCA Civ 176, para. 123.

<sup>35</sup> *Honda Motor Co. Ltd v Neesam* (2008) EWCH 338 Ch.

<sup>36</sup> Case C-128/11 *UsedSoft GmbH v Oracle International Corp.* (3 July 2012, not yet reported.)

<sup>37</sup> In *Davidson v. Internet Gateway*, for instance, the court held that "[t]he first sale doctrine is only triggered by an actual sale. Accordingly, a copyright owner does not forfeit his right of distribution by entering into a licensing agreement." (*Davidson v. Internet Gateway*, 334 F. Supp. 2d 1164, 1178 (E.D. Miss. 2004)). In *Adobe Sys. Inc. v. One Stop Micro Inc.*, it was held that "Virtually all end users do not buy - but rather receive a license for - software. The industry uses terms such as 'purchase', 'sell', 'buy'... because they are convenient and familiar, but the industry is aware that all software ... is distributed under license" (*Adobe Sys. Inc. v. One Stop Micro Inc.*, 84 F.Supp. 2d 1086, 1091 (N.D. Cal. 2000)). See also, among others, *Wall Data Inc. v. L.A. County Sheriff's Dep't*, 447 F.3d 769 (9th Cir. Cal. 2006), *Microsoft Corp. v. Harmony Computers & Electronics*, 846 F. Supp. 208, 212-213 (E.D.N.Y. 1994), *TBC -Novell v. Unicom Sales*, 2004 WL 1839117 at p. 7 (N.D. Cal. 2004) (not reported in F. Supp. 2d); *DSC Communications Corp. v. Pulse Communications Inc.*, 170 F.3d 1354, 1360 (Fed. Cir. 1999); *Novell v. Network Trade Ctr.*, 25 F. Supp. 2d 1218, 1230 (D. Utah 1997); *ISC-Bunker Ramo v. Altech, Inc.*, 765 F. Supp. 1310, 1314 (N.D. Ill. 1990); *Data Products v. Reppart*, 18 U.S.P.Q.2d 1058, 1601 (D. Kan. 1990).

<sup>38</sup> See L. Determann, *Importing Software and Copyright Law*, *The Computer and Internet Lawyer*, Vol. 30(5), May 2013; L. Determann and B. Batchelor, *Used Software Sales and Copyright Exhaustion*, *BNA Electronic Commerce*, 17 ECLR 2149 (2012). The argument that the first sale doctrine does not apply because software programmes are licensed (and not sold) was also recently applied in *Vernor v. Autodesk*, 555 F. Supp. 2d 1164. The Court of Appeal - reversing what the District Court had previously held - concluded that it was bound by *stare decisis* (*United States v. Wise*, 550 F.2d 1180 (9th Cir.

Court has acknowledged that technological progress may have rendered the Copyright Act - and its Section 109(a) on First Sale - obsolete, but "*it has not rendered it ambiguous*".<sup>39</sup> It therefore re-affirmed that first sale doctrine does not apply to the sale of digital music files albeit lawfully made and purchased.<sup>40</sup> UK courts have also found that software is licensed, not sold, and therefore attracts none of the covenants applied into a sale of goods.<sup>41</sup>

The EU Court declined to take a similar formalistic analysis. It focussed instead on the transaction's substance. The user was entitled to the permanent use of the software for a one-off fee. That was characteristic of a sale rather than a temporary licence. Hence, this was a first sale in the EEA which exhausted further rights in controlling resale.<sup>42</sup>

Going one step further, the Court also had no difficulty in finding that the promise of a download of software - since Usedsoft traded in surplus licences that had not yet been downloaded from Oracle's website - was also a sale which triggered exhaustion of the right.<sup>43</sup>

The Court then needed to determine whether there had been a "making available" of the software.<sup>44</sup> Under Art. 3(3), Copyright Directive 2001/29<sup>45</sup> exhaustion is stated specifically not to apply to the "making available right." The public communication of a work remains within the right holder's monopoly no matter how many prior public communications have occurred. A second broadcaster cannot pick up the first broadcast and make it available to a new public without the right holder's consent. Dissemination of software *via* Oracle's website was *prima facie* a making available to which exhaustion could not apply. But the Court held the same rule did not apply to software. The Software Directive<sup>46</sup> was a *lex specialis* which contained no similar prohibition on exhausting the making available right.<sup>47</sup>

It went on to find recital 29 of the Software Directive (stating that exhaustion was inapplicable to online services) could not defeat this interpretation. Distribution of software *via* download or physical media was functionally equivalent. The same principles of exhaustion should apply.<sup>48</sup>

Significantly, the Court did not stop there. In a potentially far broader *dictum* the Court found that the transfer of a permanent right to use was "distribution" rather than "making available" even under the Copyright Directive.<sup>49</sup> This potentially brought a whole range of services - music, film and e-book downloads - within online exhaustion principles. That further *dictum*, for all that it was clearly *obiter*, is potentially far reaching. Most collecting societies assert fees for performance copyright over *inter alia* music downloads. If the making available right is not engaged, then these fees are

1977) and held that the licensee was not entitled to resell under the first sale doctrine. The Court remanded the claim of alleged copyright infringement for further proceedings.

<sup>39</sup> *Capitol Records L.L.C. v. ReDigi Inc.*, 12 Civ. 95(RJS), p. 12.

<sup>40</sup> ReDigi, an online platform selling digital used music, asserted that its service was protected by the first sale defence. The Court concluded that first sale was limited to material items commercialised by the IP right owner. It considered that ReDigi did not distribute such material items, "*rather it [distributed] reproductions of the copyright code embedded in new material objects, namely, the ReDigi server in Arizona and its users' hard drives*" (*Capitol Records L.L.C. v. ReDigi Inc.*, 12 Civ. 95(RJS), p. 12).

<sup>41</sup> *London Borough of Southwark v IBM UK Limited* [2011] EWHC 549 (Software licensed subject to a reservation of ownership and expressly stated to be limited to the licensee).

<sup>42</sup> Case C-128/11 *UsedSoft GmbH v Oracle International Corp.* (3 July 2012, not yet reported.), paras. 37-48. Arts. 2 and 4 of Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs, OJ L 111, 05/05/2009, p. 16–22.

<sup>43</sup> Case C-128/11 *UsedSoft GmbH v Oracle International Corp.* (3 July 2012, not yet reported.), paras. 48 and 72.

<sup>44</sup> Article 3(1) Copyright Directive ("the making available to the public of their works in such a way that members of the public may access them from a place and at a time individually chosen by them.")

<sup>45</sup> Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, OJ L 167, 22 June 2001, pp. 10–19.

<sup>46</sup> Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs, OJ L 111, 05 May 2009, p. 16–22.

<sup>47</sup> Case C-128/11 *UsedSoft GmbH v Oracle International Corp.* (3 July 2012, not yet reported.), para. 51.

<sup>48</sup> Case C-128/11 *UsedSoft GmbH v Oracle International Corp.* (3 July 2012, not yet reported.), paras. 53-63

<sup>49</sup> Case C-128/11 *UsedSoft GmbH v Oracle International Corp.* (3 July 2012, not yet reported.), paras. 51-52

improperly claimed. The point is an important one, since the ambit of the Software Directive is limited to "pure" software, not including mixed works also involving images or sound protected by the Copyright Directive.<sup>50</sup> If *Usedsoft* is confined to the *lex specialis* of software narrowly defined, then its impact is limited. The only court to look at the point so far are the German courts, which decided *Usedsoft* is confined to software.<sup>51</sup>

Finally, the Court gave short shrift to the contractual provisions in end user software licences that prohibit transfer of software to a second hand owner, concluding that any such restriction would be invalid.<sup>52</sup>

A crucial difference between transferring software and physical goods is that for books or CDs, the seller has no further use of the property. Its physical transfer ensures this occurs. In the online world, policing whether the seller has parted with the software, or retains - as it inevitably will - all or part of the software copied on a hard-drive, server or other medium is near impossible. The Court also found no difficulty in constructing the online analogue of a physical transfer. It held that the transfer of second hand software would be infringing if the first owner did not render the software unusable.<sup>53</sup>

Finally, there were some limits to the Court's preparedness to create an online exhaustion model. Where there was a service, as a distinct to a simple software download, being delivered, then the supplier could not be forced unwillingly to continue to service the second hand owner. So software maintenance contracts for Oracle software (by which Oracle supplied bug fixes, updates, and technical assistance to the end user) were not alienable in the same way.<sup>54</sup>

Though English courts have yet to apply *Usedsoft* in domestic cases, there are already echoes of the *Usedsoft* in current UK legislative proposals. In June 2013, the UK Intellectual Property Office ("UKIPO") started publishing pieces of draft secondary legislation for technical review on proposed changes to the UK Copyright, Designs and Patents Act 1988 ("CDPA"). The draft legislation comprises exceptions for research, libraries and archives and public administration. The amendments entered into force on 1 June 2014. Amendments on exceptions for private copying, quotation and parody will enter into force on 1 October 2014. Among other things, the amendments include an exception on private copying (new Section 28B CDPA) resembling *Usedsoft* principles, and addressing the issue of transfer of a copy and retention of a copy by the transferor. An otherwise lawful transfer of a copy may infringe where the user lawfully copies the work but "transfers the individual's own copy of the work to another person (otherwise than on a private and temporary basis) and, after that transfer and without the licence of the copyright owner, retains any personal copy."

The European Commission's copyright consultation grapples with the same problem.<sup>55</sup> The Commission considers whether *Usedsoft* should be more broadly applied to other digital works.<sup>56</sup> It reaches the provisional conclusion that the current law does not extend *Usedsoft* beyond software, and

<sup>50</sup> See Case C- 355/12, *Nintendo Co. Ltd and Others v PC Box Srl and 9Net Srl* (23 January 2014, not yet published in ECR), para. 23.

<sup>51</sup> See on the point LG Berlin, judgment of 11.03.2014 - 16 O 73/13 (Computer Games) and OLG Hamm, judgment of 15.05.2014 - 22 U 60/13 (E-Books). In both judgments it was held that the *Usedsoft* doctrine of exhaustion does not apply to computer games - considered as hybrid works comprising of copyright protected works and computer programs - or e-books.

<sup>52</sup> Case C-128/11 *UsedSoft GmbH v Oracle International Corp.* (3 July 2012, not yet reported.), para. 77.

<sup>53</sup> Case C-128/11 *UsedSoft GmbH v Oracle International Corp.* (3 July 2012, not yet reported.), paras. 70 and 79. To make sure that the original acquirer has not made copies of the product in order to continue using it after the re-sale, the Court adds that "it is permissible for the distributor - whether 'classic' or 'digital' - to make use of technical protective measures such as product keys" (para. 79).

<sup>54</sup> Case C-128/11 *UsedSoft GmbH v Oracle International Corp.* (3 July 2012, not yet reported.), para. 66.

<sup>55</sup> See Draft Impact Assessment on the Modernisation of the EU Copyright Acquis, provisional version, available at: <http://statewatch.org/news/2014/may/eu-draft-impact-assessment-copyright-acquis.pdf>.

<sup>56</sup> "The question arises whether customers should be able to dispose of a digital copy acquired via an online service as they would be with regard to a physical copy", Draft Impact Assessment on the Modernisation of the EU Copyright Acquis, provisional version, p. 164.

considers whether the law should be changed to allow this. It rightly notes the significant impact on rights holders of allowing resale of perfect and infinitely transferable digital copies of their works.<sup>57</sup>

#### 1.4 Limiting the IP holders control over secondary and subsequent dealings

Exhaustion is often a poor fit for the online world. Absent a clear analogy to an offline sale or distribution, as we see in *Usedsoft*, Courts have applied alternative judicial mechanisms to limit the IP holder's control over secondary dealings in their works.

##### (a) Essential subject matter

In *Premier League*<sup>58</sup> the Court considered whether a rights holder may legitimately prevent a cross-border broadcast of sports content. Mrs Murphy, a UK publican, purchased a satellite decoder card from a Greek pay-TV broadcaster to be able to receive satellite broadcasts of English Premier League football matches in her pub. The Greek broadcaster was contractually permitted only to broadcast to Greek subscribers, the UK Premier League broadcasting rights being acquired exclusively by a UK broadcaster.

UK law criminalised the misuse of decoder cards to receive unauthorised broadcasts.<sup>59</sup> The question arose whether that legislation was compatible with EU principles of free movement of services.

Based on standing EU precedent the answer should have been that the legislation was permitted by EU free movement principles. On similar facts, in *Coditel I*,<sup>60</sup> the Court had concluded a German broadcast could not be retransmitted in Belgium without the right holder's consent. The right holder was entitled to authorise each performance of its work. If it could not, a right holder could not be properly compensated. Without being able to circumscribe the territories in which its content is broadcast or the number of broadcasts, a right holder risked being grossly undercompensated if it give what it thought was a limited territorial licence to a performance it found retransmitted around Europe.<sup>61</sup>

In *Premier League* the Court revised its view in *Coditel I*. It found that the UK law criminalising receipt of the broadcast served the same public interest goal of IP protection as intellectual property rights. This was a permitted justification for a restriction on free movement of services. But the court went further to consider whether this restriction was reasonable and proportionate. It applied the "essential subject matter" doctrine.<sup>62</sup>

Where a restriction falls within the essential subject matter of intellectual property protection, then it is considered reasonable and proportionate restriction, and so legal under EU free movement rules.<sup>63</sup> "Essential subject matter" is a judge made construct by which the legitimate scope of an intellectual property right is defined. In prior cases, including *Coditel I*, the territorial nature of IP performance copyright was recognised as part of its essential subject matter.<sup>64</sup>

In *Premier League* the Court revisited this conclusion. It added a new gloss to essential subject matter, which subtly, but effectively, entirely re-wrote the accepted legal position. Essential subject

<sup>57</sup> See Draft Impact Assessment on the Modernisation of the EU Copyright Acquis, provisional version, p. 165.

<sup>58</sup> Cases C- 403/08 and 429/08, *Football Association Premier League Ltd v QC Leisure* [2011] ECR I-9083.

<sup>59</sup> Section 297(1), Copyright Designs and Patents Act 1988 ("A person who dishonestly receives a programme included in a broadcasting service provided from a place in the United Kingdom with intent to avoid payment of any charge applicable to the reception of the programme commits an offence and is liable on summary conviction to a fine not exceeding level 5 on the standard scale.")

<sup>60</sup> Case C-62/79, *SA Compagnie générale pour la diffusion de la télévision, Coditel, and others v Ciné Vog Films and others* [1980] ECR 881.

<sup>61</sup> *Ibid.*, para 16. See also Opinion of Advocate General Reischl, ECJ, in the same case, delivered on 14 September 1982, paras. 2(aa), (bb), (cc), pp. 3411-3413.

<sup>62</sup> Cases C- 403/08 and 429/08, *Football Association Premier League Ltd v QC Leisure* [2011] ECR I-9083, paras. 137-138.

<sup>63</sup> Cases C- 403/08 and 429/08, *Football Association Premier League Ltd v QC Leisure* [2011] ECR I-9083, paras. 104-106.

<sup>64</sup> Case C-62/79, *SA Compagnie générale pour la diffusion de la télévision, Coditel, and others v Ciné Vog Films and others* [1980] ECR 881, paras 15-18.

matter certainly included the right to appropriate remuneration by licensing one licensee in each territory, the Court found.<sup>65</sup> But it did not encompass a right to extract an exclusivity premium from each territory by promising each licensee protection from cross-border broadcasts. Where the right holder could effectively track and calculate the number of subscribers to the licensed service across Europe then it was not at risk of being under-remunerated. The ECJ held that "*reception of a satellite broadcast, such as that at issue in the main proceedings, requires possession of a decoding device. Consequently, it is possible to determine with a very high degree of precision the total number of viewers who form part of the actual and potential audience of the broadcast concerned, hence of the viewers residing within and outside the Member State of broadcast.*"<sup>66</sup> If the Greek broadcaster, on this view, sold to subscribers across Europe, then this could be tracked because each subscriber would need its own decoder card to decrypt the satellite broadcast. So the right holder could demand royalties for each subscriber no matter where they resided in Europe. To be appropriately remunerated, it did not need to segment EU territories. It could charge a per subscriber fee based on the number of the subscribers buying decoder cards instead.

On the facts, this conclusion did not change the final outcome. Had the content been viewed only privately by Ms Murphy and her family, then that would have been legal. But showing the matches to customers was to show the matches to a "new public" not envisaged by the licensor - who permitted only residential, rather than commercial use.<sup>67</sup> This was a potential copyright infringement.<sup>68</sup>

In tandem with the free movement analysis as to whether UK anti-piracy laws made the cross-border broadcast illegal, the Court also considered whether contractual restrictions preventing the Greek broadcaster selling decoder cards into the UK were valid. It concluded they were not. They had the object of restricting resale within the EEA, hence constituted by object infringements of EU competition law.<sup>69</sup> The restrictions were accordingly invalid.

The question arises how broadly *Premier League* applies. The case related to satellite broadcasting, not online dissemination of works. This is not just a cosmetic distinction. The Satellite Directive<sup>70</sup> copyright regime is very different to that of the Copyright Directive applicable to online dissemination of content. The Satellite Directive has a pan-European licensing rule, which holds that copyright is engaged only in the country-of-uplink, from which the broadcast emanates, rather than all the countries' copyright laws where the broadcast is received.<sup>71</sup> This is not the same for internet dissemination, for which copyright clearance in each country of reception is required.<sup>72</sup> In other contexts, indeed, a later Court case held *Premier League* inapplicable within the "context of territory-based copyright protection."<sup>73</sup>

<sup>65</sup> Cases C- 403/08 and 429/08, *Football Association Premier League Ltd v QC Leisure* [2011] ECR I-9083, paras. 108-110.

<sup>66</sup> Cases C- 403/08 and 429/08, *Football Association Premier League Ltd v QC Leisure* [2011] ECR I-9083, para. 113.

<sup>67</sup> Cases C- 403/08 and 429/08, *Football Association Premier League Ltd v QC Leisure* [2011] ECR I-9083, paras. 198-199.

<sup>68</sup> Based on the ECJ's ruling the High Court concluded that Ms Murphy's conviction could not stand. The court held in fact that Ms Murphy did not act "*with intent to avoid payment of any charge applicable to the reception of the programme*", as she had lawfully purchased the viewing card. For this reason, since the decoder card was not a pirate card, that is to say a card manufactured without the card issuer's authorisation, there was no room to consider Ms Murphy's viewing cards 'illicit devices' within the meaning of Art. 2(e) of Directive 98/84 on the legal protection of services based on conditional access.

<sup>69</sup> Cases C- 403/08 and 429/08, *Football Association Premier League Ltd v QC Leisure* [2011] ECR I-9083, para. 140.

<sup>70</sup> Council Directive 93/83/EEC of 27 September 1993 on the coordination of certain rules concerning copyright and rights related to copyright applicable to satellite broadcasting and cable retransmission, OJ 248 , 6 October 1993 pp. 15-21.

<sup>71</sup> Art. 1(2)b, (i), Council Directive 93/83/EEC: "*[I]f the programme-carrying signals are transmitted to the satellite from an uplink situation situated in a Member State, that act of communication to the public by satellite shall be deemed to have occurred in that Member State and the rights provided for under Chapter II shall be exercisable against the person operating the uplink station.*"

<sup>72</sup> Case C-170/12 *Peter Pinckney v KDG Mediatech AG* (3 October 2013, not yet reported.), para. 39, and Case C-173/11 *Football Dataco Ltd and Others v Sportradar GmbH and Sportradar AG* (18 October 2012, not yet reported.), paras. 34-35.

<sup>73</sup> Case C-351/12 *Ochranný svaz autorský pro práva k dílům hudebním o.s. ("OSA") v Léčebné lázně Mariánské Lázně a.s.* (27 February 2014, not yet reported), para. 73 ("As regards the question whether such legislation goes beyond what is necessary in order to attain the objective of protecting intellectual property rights, it must be pointed out that ... legislation such as that at issue in the main proceedings forms part of a context of territory-based copyright protection.")



Whether the *Premier League* rule can be read beyond satellite to internet or other forms of dissemination remains, therefore, an open question.

So too does the question of whether it can be read more broadly than sports content. Prior case law in the audiovisual sector made clear that territorial protection was an essential industry characteristic.<sup>74</sup> Film producers market their works on a territory by territory basis, relying on anticipated national receipts, distribution deals or "presales" to fund the creation of the work. They sell content in temporal "windows" - cinema, DVD, pay-TV and so on - which differ from state to state. If the producer cannot offer a local distributor or broadcaster territorial exclusivity over the content, or a specific window, then these deals cannot be done, and content cannot be financed.<sup>75</sup>

### 1.5 Temporary Copying Exception

We see courts using other legal mechanisms to constrain the breadth of the IP holder's monopoly online. Often an online service can involve nothing more than aggregating and making available content existing elsewhere. The question of whether the right holder should be able to control aggregation and access services was dealt with by the UK Supreme Court in *Meltwater*<sup>76</sup>. Meltwater offered media monitoring service by which it created lists with hyperlinks for its clients based on their preferred search terms. The service "scraped" content from news webpages to offer this service. When Meltwater's clients viewed the linked content, it created a copy of the work on the user's screen and/or computer cache. The question was whether these copies were an infringing reproduction of the protected work, or a non-infringing act protected by the temporary copying exemption.

The Supreme Court held that the 'temporary use exception' of Art. 5(1) of the Copyright Directive 2001/29<sup>77</sup> (implemented by Section 28A CDPA) applies to all copies temporarily retained on screen or in the cache which are incidental to the use of internet. This technical limitation was included by the European legislation (and reflected in the CDPA) in order to limit the broad concept of 'right of reproduction' as included in Art. 2 of the Copyright Directive. Temporary acts of reproduction are "*transient or incidental and [constitute] an integral and essential part of a technological process*" (Art. 5(1)). Such temporary acts of reproduction do not represent infringement of copyright when they are required to enable the lawful intermediaries and end-users to use the computer programme in accordance with its intended purpose.

It therefore held that a licence was not required. The Court reached this conclusion based on Recitals 33 of the directive, which clearly states it was intended to "*include acts which enable browsing as well as acts of caching to take place.*" In addition, as required by Art. 5(1) the end-users' use of work when browsing the internet was to be considered 'lawful use'. Finally, the Court found this approach to be consistent with *Premier League*, where the copy of the Premier League broadcast held in the set-top-box cache and television screen was held to fall within the incidental copying exception.<sup>78</sup> Accordingly, Meltwater's service did not involve end users in infringing acts by accessing the content via the Meltwater-aggregated hyperlinks.

While setting out its reasoning in detail, the Court noted that the case's "*transnational dimension and that the application of copyright law to internet use has important implications for many millions of people across the EU making use of what has become a basic technical facility.*"<sup>79</sup> On a preliminary reference of this question, the ECJ confirmed that temporary copying of content involved in browsing

<sup>74</sup> Case C-262/81, *Coditel SA, Compagnie générale pour la diffusion de la télévision, and others v Ciné-Vog Films SA and others* [1982] ECR 3381, paras. 16-20.

<sup>75</sup> See Draft Impact Assessment on the Modernisation of the EU Copyright Acquis, provisional version (see footnote above), pp. 26-27.

<sup>76</sup> *Public Relations Consultants Association Ltd v The Newspaper Licensing Agency Ltd & Ors* (2013) UKSC 18.

<sup>77</sup> Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, OJ L 167, 22 June 2001, pp. 10-19.

<sup>78</sup> Cases C- 403/08 and 429/08, *Football Association Premier League Ltd v QC Leisure* [2011] ECR I-9083, paras. 165-179.

<sup>79</sup> *Public Relations Consultants Association Ltd v The Newspaper Licensing Agency Ltd & Ors* (2013) UKSC 18, para. 38 *per* Lord Sumption,

the internet does not amount to copyright infringement.<sup>80</sup> End user acts which merely constitute opening and reading a web page fall within the EU temporary copy exception and as such do not require authorisation, either expressed or implied, from the relevant copyright owner.

#### 1.6 Making available to the "same public"

In *Svensson* a twist on the definition of "communication to the public" produced the same result. The ECJ considered that the provision of links to protected works that were published and freely accessible in another site, did not constitute a 'communication to the public', since such communication was not directed to a new public.<sup>81</sup>

#### 1.7 Retransmission as a New "Making Available"

The English courts have not been so swift to limit the IP holder's control where the EU single market has not been implicated. *TV Catchup*<sup>82</sup> concerned an online TV service provider which streamed UK free-to-air channels to UK subscribers. This was content which, the defendant argued, UK subscribers would have been entitled to watch without charge. The service simply provided an alternative way of receiving the same content.

The court considered whether this retransmission involved a new 'communication to the public' within the meaning of Article 3(1) of the Copyright Directive 2001/29, which only the TV channels could authorise. On referral, the EU Court was unpersuaded by TV Catchup's claims that its internet service reached precisely the same public as the broadcasters' over-the-air signal (and indeed subscribers' eligibility for the free-to-air service was checked on registration). The Court held the "new public" criterion - the decisive point in *Svensson* - not applicable on these facts where transmission was via a different technical means to the original public communication.<sup>83</sup> Accordingly, the High Court held TV Catchup infringed the broadcaster's copyright. The communication to the public occurred where there was a re-transmission by a different means to the original. Where this was the case, it was not relevant whether the same public was targeted.

As a matter of domestic law this was not the end of the matter, however, since UK law enables cable TV broadcasters to carry the main terrestrial free-to-air channels without infringing copyright. In effect, this constitutes a must offer obligation on UK free-to-air broadcasters to ensure cable TV operators can offer the main UK free-to-air terrestrial channels along side their broader product offering.<sup>84</sup> The court found that TV Catchup's carriage of the free-to-air channels via the internet fell within this provision. "Cable," though commonly associated with the coaxial cable of traditional cable TV franchises, need not be so limited. Its natural meaning would encompass any service over "cables" in the broader sense of "wire". One such "wire" service was the internet. Conversely, however, TV Catchup's wireless service - a direct to mobile stream - did not fall within the cable exception.

Similarly, in the recent *Paramount and British Sky Broadcasting* case the High Court granted an injunction to block access to streaming website for infringing copyright.<sup>85</sup> The targets of the application were four streaming websites which did not host the content, but "*categorise, reference, moderate or otherwise provide editorial oversight over the content, and provide search facilities to enable visitors [...] to quickly find the film or TV programme which they wish to see.*"<sup>86</sup> The defendants, six main Internet Service Providers ("ISPs") did not oppose to the application, and stressed their role of simple intermediaries. The Court granted the injunction as it found that target

<sup>80</sup> Case C-360/13, *Public Relations Consultants Association*, (5 June 2014, not yet published in ECR), para. 63.

<sup>81</sup> Case C-466/12 *Svenssons and Others* (13 February 2014, not yet published in ECR), paras. 28, 30 and 32.

<sup>82</sup> *ITV Broadcasting Ltd & Ors v TV Catchup Ltd* 2011 EWHC 1874 (Pat).

<sup>83</sup> Case C- 607/11, *ITV Broadcasting Ltd and Others v TV Catch Up Ltd* (7 March 2013, not yet published in ECR).

<sup>84</sup> Section 73, Copyright, Designs and Patents Act 1988

<sup>85</sup> *Paramount Home Entertainment International Ltd and others v British Sky Broadcasting Ltd and others* 2014 EWHC 937 (Ch).

<sup>86</sup> *Ibid.* para. 17.

websites infringed copyright works by making them available to a new audience and used the services of the respondents to do that.

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

In sections 2-4, we draw upon our general themes in part one to answer the pro-forma part of the questionnaire and conclude in section 5.

Neither the expression on-line industry or e-commerce are legal terms of art in the English case law or legislation on exhaustion. Though updating of the UK legislation seeks specifically to address problems encountered in the online space, such as the transfer of private copies without deletion of the original.

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

### 3.1 Online “Exhaustion of IP Rights” Cases

There are no national judgments dealing with exhaustion in the online context

### 3.2 “Traditional Industry” vs “On-line Industry”

There are no national judgments dealing with exhaustion in the online context

### 3.3 Local application of *Usedsoft*

There are no national judgments dealing with exhaustion in the online context or applying the CJEU decision in *Usedsoft*. Planned legislative changes to introduce a private copying exception echo the court's approach in *Usedsoft* to some extent.

### 3.4 Read Across of *Usedsoft* to Non-Software Works

There are no national judgments dealing with exhaustion in the online context. Indeed, *Usedsoft* reverses English precedent (*LBC Southwark v IBM*)<sup>87</sup> that treats software supply as a mere license for use and not a sale.

It is clear that software distribution would be addressed in the same way, but less clear in relation to other electronically distributed products, such as music, video or e-book permanent downloads. Since software is a *lex specialis*, extension of the principles in *Usedsoft* would create new law. Yet there are indications, *obiter dicta* of the *Usedsoft* court, indeed, that would read across to other forms of electronic distribution, provided there were similar features equating to a sale - permanency, a one off fee, destruction/unusability of the transferor's copy of the work.

Some commentators take comfort from the CJEU's ruling in *Nintendo v PC Box*<sup>88</sup> that videogames are complex multimedia creations containing graphic and sound elements that do not consist solely of computer programs and that accordingly their protection does not solely within the scope of the Software Directive, but of the broader Copyright Directive. Hence this would make many types of software fall, at least in part, outside the software directive and ambit of *Usedsoft*. German courts have taken the same position.<sup>89</sup> The EU draft copyright impact assessment also takes this view.<sup>90</sup>

### 3.5 Contractual Enforceability

<sup>87</sup> *London Borough of Southwark v IBM UK Limited* [2011] EWHC 549, paras. 95-98.

<sup>88</sup> Case C- 355/12, *Nintendo Co. Ltd and Others v PC Box Srl and 9Net Srl* (23 January 2014, not yet published in ECR).

<sup>89</sup> See LG Berlin, judgment of 11.03.2014 - 16 O 73/13 (Computer Games) and OLG Hamm, judgment of 15.05.2014 - 22 U 60/13 (E-Books) mentioned above.

<sup>90</sup> See Draft Impact Assessment on the Modernisation of the EU Copyright Acquis, provisional version (see footnote above), pp. 164-166.

*Usedsoft* states that contractual restrictions on software transfer are invalid.<sup>91</sup> It is questionable whether this is the right approach. The alternative approach in *Premier League* is that contractual arrangements to like effect will be enforceable unless other rules of law - in that case competition law - dictate otherwise.<sup>92</sup> Copyright only defines intellectual property, it does not pretend to legislate for all possible contractual dealings with that property. Why should contracts for intellectual property be any different to contracts for physical property? The only reason to constrain contractual dealings would be another public interest concern, such as competition law, restraint of trade or some other illegality.

We note, however, that the UK is currently consulting on legislation to invalidate any contractual provision that cuts across copyright exceptions.<sup>93</sup>

### 3.6 Kirtsaeng and Monsanto

These cases have not - as yet - influenced domestic law.

### 3.7 Evidence that “On-line Industry” Practices are Impacted

There is limited evidence of impact. Many legacy software licences still contain transfer restrictions. Some already had, or now contain, transfer mechanisms prescribing the various steps the transferor and transferee must take to transfer the software. *Usedsoft* offers no practical guidance on essential matters such as flow down of the end user licence, proof of destruction of the transferor copy and whether the transferee can be bound as to the terms of the end user licence as a condition of transfer. Equally subsequent cases have cast doubt as to the breadth of *Usedsoft's* applicability outside of the - post-*Nintendo* increasingly narrow - *lex specialis* of the Software Directive. Hence software vendors may see little upside in changing from one set of potentially unenforceable arrangements to another, more complicated, set of potentially equally unenforceable arrangements.

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

### 4.1 On-line Infringement

The same laws apply to infringement in an online and off-line context. As described above, how to apply those laws in an online context has been the subject of much litigation.

### 4.2 Digital Platform Infringement

Infringement would be the same whether online or offline. There would remain different issues potentially of jurisdiction, for example, whether a service simply available in the UK via a website, but not targeted there, could be infringing. The CJEU ruling in *Pinckney* suggests that the UK courts would have jurisdiction over a claim copyright infringement in relation to a website which is accessible in the UK, even if it is not directed towards UK consumers.

### 4.3 Remedies for On-line Infringement

The remedies available depend on the IP right concerned. In relation to online infringement of copyright the available remedies would include damages or an account of profits, an injunction to restrain further infringement or an undertaking to take a licence of the copyright on agreed terms.

### 4.4 Effectiveness of Remedies for Online Infringement

<sup>91</sup> Case C-128/11 *UsedSoft GmbH v Oracle International Corp.* (3 July 2012, not yet reported.), para. 77.

<sup>92</sup> Cases C- 403/08 and 429/08, *Football Association Premier League Ltd v QC Leisure* [2011] ECR I-9083, paras. 139-146.

<sup>93</sup> Copyright and Rights in Performances (Personal Copies for Private Use) Regulations 2014 s.3(10): (at <http://www.legislation.gov.uk/ukdsi/2014/9780111112700> which will amend the CDPA). Similar amendments are proposed for other exceptions. A copy of the likely post amendment CDPA is available here: <http://www.ipso.gov.uk/cdpa1988-unofficial.pdf>

Assessment of damages is likely to be challenging in an online context. Jurisdictional rules mean that if a claimant elects to sue in the Member State where the damage is suffered, damages will be limited to that jurisdiction. In the online context this may only be a small proportion of the damage suffered. Therefore Claimants may need to consider suing the defendant in their country of domicile or in the country where the damage was caused in order to obtain full damages for infringement.

#### 4.5 Preliminary Injunctions

It is possible to obtain interim injunctions and orders for interim damages before a hearing on the merits. It is possible to obtain these remedies before proceedings are started and during proceedings before the trial. If an order is sought before proceedings are started it must be shown that:

- the matter is urgent; or
- it is otherwise desirable to grant the order in the interests of justice.

The conditions for obtaining these orders are as follows:

##### (a) Interim injunctions:

- there must be a serious question to be tried; and
- damages would not be an adequate remedy; and
- the balance of convenience favours the applicant; and/or
- there are special factors in favour of granting the injunction<sup>94</sup>.

The applicant will usually be ordered to pay a cross-undertaking in damages, which will be paid to the respondent in the event that applicant is unsuccessful.

##### (b) Interim damages

- the defendant has admitted liability to pay damages or a sum of money to the claimant; or
- the claimant has obtained judgment against that defendant for damages to be assessed or for a sum of money (other than costs) to be assessed; or
- the court is satisfied that, if the claim went to trial, the claimant would obtain judgment for a substantial amount of money (other than costs) against the defendant.

The court must not order an interim payment of more than a reasonable proportion of the likely amount of the final judgment.

In both cases, the claimant may be ordered to pay security for the defendant's costs in the event that the claimant's case is eventually unsuccessful on the merits.

As to the ease of obtaining these orders, the courts are generally willing to grant such orders in IP cases, however, the conditions can be quite difficult to establish and it can be costly to gather the necessary evidence.

#### 4.6 Challenges in Execution

Executing judgments against infringers can be challenging. For example, the Motion Picture Association obtained a judgment of copyright infringement against the index-linking website, Newzbin.<sup>95</sup> Newzbin went into liquidation before paying damages. A new website, Newzbin 2, was

<sup>94</sup> *American Cyanamid Co v Ethicon Ltd* 1975 AC 396.

<sup>95</sup> *Twentieth Century Fox Film Corp v Newzbin Ltd* 2010 EWHC 608 (Ch.), E.C.C. 13. See, among others *Twentieth Century Fox Film Corp v BT* 2011 RPC 28; *Paramount Home Entertainment International Ltd and others v British Sky*

then set up with servers in Sweden and registered in the US (it is unclear whether the owners were related as they were anonymous). The MPA chose to tackle Newzbin 2 by seeking an order from the UK courts for the internet service provider BT to block access to Newzbin 2. This has been a popular remedy for right holders in the UK since this case,

## 5. Conclusion

Though nominally framed for an information society,<sup>96</sup> EU legislation and its UK derivatives have shown themselves poorly adapted. Questions that are fundamental to online business models were left to the courts to decide, often on the basis of confusing and contradictory recitals and operative provisions. Even the most basic question - whether reading content on a website might infringe - needed to be appealed to the UK Supreme Court in *Meltwater*, and thence referred to the EU Court of Justice.

English courts have sought to implement EU concepts and case law diligently, sometimes wanting to take a broader stance on issues such as ex-EEA parallel trade and implied consent. But have needed also to make EU referrals on a range of issues, such as cross-border broadcasting, aggregation and retransmission services.

Exhaustion, as we argue in this report, is the tip of the iceberg. Many rights are implicated in online business models that extend well beyond simple distribution. The EU and UK courts alike face challenges in striking the balance. The EU Court may well read legislation so as to further the single market agenda even where this may restrict the scope of intellectual property protection. It can be expected to refine well worn EU tools such as exhaustion and specific subject matter, as well as adding tweaks to legislative definitions *inter alia* as to distribution, incidental copying and communication to the public. UK courts will approach the legislation and its adaptation to an online world far more cautiously.

As a policy matter one may question which is the right approach. New creative works or industrial inventions will not be created in a climate of legal uncertainty. The cost is too high, and the risks prohibitive, without security of IP protection. It may be considered inappropriate to have the jurisprudence re-write the legislator's intentions, however confused they may appear to be. The right place for policy choices on these essentially underpinning s of creativity and the economy is a legislative process for all its occasional imperfections and compromises.

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*Broadcasting Ltd and others* 2013 EWHC 3479 (Ch); *EMI Records Ltd v British Sky Broadcasting Ltd* 2013 EWHC 379 (Ch); *Dramatico Entertainment Ltd v British Sky Broadcasting Ltd* 2012 EWHC 268 (Ch).

<sup>96</sup> See, among others, Recitals 2, 6 and 7 of Directive 2001/29/EC on the harmonisation of certain aspects of copyright and related rights in the information society. See also Commission of the European Communities (1993), Growth, competitiveness, employment. The challenges and ways forward into the 21st century, EU: Brussels (Delors White Paper), pp. 92-93; Commission of the European Communities (1994a), Europe and the global information society. Recommendations to the European Council, EU: Brussels (High-level group on the information society – Bangemann Report); Soete L. (1997), Building the European Information Society for us all. Final policy report of the high-level expert group. Brussels: EU-DGV.

## ANNEX

IP Rights	Case Law	EU Law	UK Law
<b>Patents</b>	<p>Case C-24/67, <i>Parke, Davis and Co. v Probel, Reese, Beintema-Interpharm and Centrafarm</i> [1968] ECR 81.</p> <p>Case C-15/74, <i>Centrafarm BV and Adriaan de Peijper v Sterling Drug Inc.</i> [1974] ECR 1147.</p> <p>Case C-35/87, <i>Thetford Corporation and others v Fiamma SpA and others</i> [1988] ECR 3585.</p>	<p>Community Exhaustion will apply by virtue of the TFEU and the European Communities Act. Package still to be implemented (Regulation (EU) No 1257/2012 of the European Parliament and of the Council Council regulation (EU) No 1260/2012)</p>	<p>No legislative provision. Patent exhaustion is a case law principle.</p>
<b>Trademarks</b>	<p>Case C-56/64, <i>Établissements Consten S.à.R.L. and Grundig-Verkaufs-GmbH v Commission of the European Economic Community</i> [1966] ECR 429.</p> <p>Case C-40/70, <i>Sirena Srl v Eda Srl and others</i> [1979] ECR 3169.</p> <p>Case C-16/74, <i>Centrafarm BV and Adriaan de Peijper v Winthrop BV</i> [1974] ECR 1183.</p> <p>Case C-51/75, <i>EMI Records Limited v CBS United Kingdom Limited</i> [1976] ECR 811.</p> <p>Case C-58/80, <i>Dansk Supermarked A/S v A/S Imerco</i> ECR [1981] 181.</p>	<p>Art. 13 of Regulation 207/2009 on the Community trade mark</p> <p>Art. 7 of Directive 2008/95/EC to approximate the laws of the Member States relating to trade marks</p>	<p>Section 12 of Trade Marks Act 1994</p>
<b>Copyright</b>	<p>Case C-62/79, <i>SA Compagnie générale pour la diffusion de la télévision, Coditel, and others v Ciné Vog Films and others</i> [1980] ECR 881.</p> <p>Case C-262/81, <i>Coditel SA, Compagnie générale pour la diffusion de la télévision, and others v Ciné-Vog Films SA and others</i> [1982] ECR 3381.</p> <p>Case C-270/80, <i>Polydor Limited and RSO Records Inc. v Harlequin Records Shops Limited and Simons Records</i></p>	<p>Art. 4.2 of Directive 2001/29/EC on the harmonisation of certain aspects of copyright and related rights in the information society</p> <p>Arts. 2 and 4 of Directive 2009/24/EC on the legal protection of computer programs</p>	<p>Section 18(3) of Copyright Designs and Patents Act 1988</p>

IP Rights	Case Law	EU Law	UK Law
	<p><i>Limited</i> [1982] ECR 329.</p> <p>Case T-69/89, <i>Radio Telefis Eireann v Commission of the European Communities</i> [1991] ECR II-485.</p> <p>Case C-241/91P, <i>Radio Telefis Eireann (RTE) and Independent Television Publications Ltd (ITP) v Commission of the European Communities</i> [1995] ECR I-743.</p>		