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

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Introduction

The online distribution of goods is taking off around the globe and in Switzerland. This is true with respect to tangible products (such as sport shoes on eBay) and services (like flights at swiss.com). Increasingly also, people buy software and other goods such as music, videos and books in purely digital form, *i.e.* without the transfer of any tangible medium (sometimes also referred to as material medium).[1] With respect to software for instance, CDs and DVDs have been largely replaced by downloads from the Internet. In 2011, the amount spent by Swiss consumers in relation to e-commerce reached almost 5 billion Swiss francs; this shows a substantial increase over the past years, and this trend is expected to continue in the future.[2]

Naturally, a secondary market for some goods purchased online is emerging. Such market creates different sets of issues; in particular, it raises the question whether reselling goods purchased online infringes on the intellectual property rights owned by the persons or entities who distributed the goods online in the first place. Put differently, do persons or entities who acquire goods online have a right to operate in the secondary market, on the basis of the argument that the IP rights protecting the goods are exhausted?[3]

The present contribution aims to address this question from a Swiss law perspective. If it deals generally with all types of goods and IP rights, it focuses to a large extent on the main issue: the exhaustion of copyright (and neighboring rights) on digital works transferred through the Internet. By contrast, it will be given less consideration to the distribution of physical goods purchased online as this type of distribution does not seem to raise any new issue from an exhaustion perspective. In addition – although they somehow relate to the online distribution of goods – topics such as the access to content using streaming technologies[4] and to software *via* cloud computing

[1] For an interesting list of digital products and services which are successful in the market, see for instance *http://explorerhub.com/blog/sell-digital-services-products/*.

[2] See the figures provided by the Swiss Federal Statistical Office at *http://www.bfs.admin.ch/bfs/portal/fr/index/themen/16/04/key/approche_globale.indicator.30108.301.html?open=1#1*. It is worth pointing out that Swiss law – as compared for instance to the EU law – contains very few provisions specifically applicable to e-commerce (this concept is moreover not defined in the applicable provisions). In this respect, see for instance the specific page available on the website of the federal administration at *http://www.kmu.admin.ch/kmu-betreiben/03260/03263/03274/index.html?lang=fr*.

[3] To illustrate this question, it may be recalled that the issue was brought up in the news in September 2012 when the American actor Bruce Willis stated that he wanted to leave his large music library to his daughters. This was however not possible because under the applicable iTunes terms and conditions, Bruce Willis was not the owner but only the borrower of the music files. In this respect, see for instance *http://www.forbes.com/sites/timworstall/2012/09/03/bruce-willis-to-sue-apple-over-itunes/*.

[4] For a recent contribution under Swiss law, see S. BRÄNDLI/A. TAMÒ, *Mainstream – Streaming als Nutzungsform der Gegenwart und der Zukunft*, in: sic! 2013, p. 651 *et seq*.

technologies (SaaS) are not addressed because they should in principle not raise exhaustion concerns.[5]

Switzerland being largely integrated in the European market from an economic perspective, Swiss law is significantly influenced by legal developments at the European level. Therefore, attention will be paid to the law of the European Union[6] and, in particular, to the quite recent judgment handed down by the European Court of Justice in the *UsedSoft v. Oracle* case.[7] In the digital environment moreover, reference to the WIPO Internet Treaties is of essence.[8] When appropriate, some attention will also be paid to developments in the United States.[9]

The present contribution is structured as follows: Part 1 presents generally the regimes of exhaustion under Swiss law while Parts 2 and 3 deal with the specific issues raised in this respect by the online sector (respectively under copyright law and other IP rights). Part 4 adresses the question whether parties can contract around the principle of exhaustion. Some considerations relating to remedies are discussed in Part 5. Part 6 contains the conclusion.

1. Exhaustion of IP rights in the brick-and-mortar world

1.1 Principle of exhaustion across IP rights

Under Swiss law, the principle of exhaustion is treated differently according to the different intellectual property rights. Moreover, the Swiss market being of a relatively limited size, the exhaustion issue has been essentially addressed from a transnational perspective.

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[5] It should nonetheless be pointed out that R. M. HILTY/K. KÖKLÜ/F. HAFENBRÄDL, *Software agreements: stocktaking and outlook – Lessons from the* Usedsoft v. Oracle *case from a comparative law perspective*, in: IIC 2013, p. 263 *et seq*., interestingly argue that cloud computing services could be subject to an implied license (the analysis is close to exhaustion).

[6] Particularly**,** 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 2001 L 167/10 (the "EU Copyright Directive"), and Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs, OJ 2009 L 111/16 (the "EU Software Directive").

[7] ECJ, C-128/11, *UsedSoft GmbH v. Oracle International Corp*. For an excellent contribution regarding this case, see HILTY/KÖKLÜ/HAFENBRÄDL, footnote 5. See also R. M. HILTY, *Die Rechtsnatur des Softwarevertrages – Erkenntnisse aus der Entscheidung des EuGH UsedSoft vs. Oracle*, in: Computer und Recht 2012, p. 625 *et seq*. For a general discussion about the *UsedSoft v. Oracle* case from a Swiss perspective, see C. TAUFER-LAFFER, *Urheberrechtsentwicklung durch den EuGH – entfernt sich die EU von der Schweiz*, in: sic! 2013, p. 403 *et seq*. (in particular p. 411).

[8] WIPO Copyright Treaty (WCT), adopted in Geneva on December 20, 1996, and WIPO Performances and Phonograms Treaty (WPPT), adopted in Geneva on December 20, 1996. Both Treaties can be found on WIPO's website at *http://www.wipo.int/treaties/en/*. Also, the Agreed Statements concerning the WIPO Copyright Treaty adopted by the Diplomatic Conference on December 20, 1996, available at *http://www.wipo.int/wipolex/fr/wipo_treaties/text.jsp?file_id=295456* (the "Agreed Statements").

[9] With respect to the doctrine of exhaustion in general, see US Supreme Court, 133 S. Ct. 1351 (2013), *Kirtsaeng v. John Wiley & Sons, Inc*. For a contribution which makes the link between the *Kirtsaeng* case and the online world, see C. D. ASAY, *Kirtsaeng and the first-sale doctrine's digital problem*, in: Stanford Law Review Online 2013, Vol. 66, p. 17 *et seq*. For a recent case about exhaustion in the online world, see US District Court for the Southern District of New York, No. 12 Civ. 95 (RJS), *Capitol Records, LLC, v. ReDigi Inc*. For an interesting discussion about this case, see G. CAPOBIANCO, *Rethinking ReDigi: How a characteristics-based test advances the "digital first sale" doctrine debate*, in: Cardozo Law Review 2013, Vol. 35, p. 391 *et seq*. More generally in this context, see for instance also A. K. PERZANOWSKI/J. SCHULTZ, *Digital exhaustion*, in: University of California Law Review 2011, Vol. 58, p. 889 *et seq*.

The Copyright Act[10] contains an explicit provision on exhaustion. According to Copyright Act, Article 12(1),[11] "[w]here the author has transferred the rights to a copy of a work or has consented to such a transfer, these rights may subsequently be further transferred or the copy otherwise distributed." Copyright Act, Article 12(2), provides for a similar provision for computer programs, with the exception that the author keeps the exclusive rental right (Copyright Act, Article 10(3)).[12]

Following the structure of the law, exhaustion occurs when the author exercised his or her distribution right pursuant to Copyright Act, Article 10(2)(b).[13] This applies *mutatis mutandis* with respect to computer programs. Thus, the plain language and structure of the law excludes exhaustion in relation to the reproduction right[14] or the communication right.[15]

Unlike the Copyright Act, the Trademark Act[16] does not explicitly regulate exhaustion. This principle was however recognized by the Swiss Federal Tribunal:[17] once the trademark owner agreed that a product bearing his or her trademark is put on the market, he or she cannot oppose any further resale of the product. Scholars generally agree that exhaustion is excluded with respect to services.[18]

In trademark[19] and copyright[20] law, the Swiss Federal Tribunal decided for the principle of international exhaustion. Thus, if the copy of the work, respectively the trademarked product, are put on the market anywhere in the world by the intellectual property owner or with his or her consent, the right will be deemed exhausted in Switzerland.[21]

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[10] *Loi fédérale sur le droit d'auteur et les droits voisins (LDA)/Bundesgesetz über das Urheberrecht und verwandte Schutzrechte (URG)*, classified compilation of federal law 231.1.

[11] For the sake of completeness, it may be recalled that WIPO Copyright Treaty, Article 6(2), provides that "[n]othing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in Paragraph (1) applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author."

[12] E. PHILIPPIN, *ad LDA, Article 12*, in: J. DE WERRA/P. GILLIÉRON (ed.), *Commentaire romand du droit de la propriété intellectuelle*, Basel 2013, § 34 *et seq*. With respect to neighboring rights, Copyright Act, Article 38, provides that "[t]he provisions under Article 1 paragraph 1 […] of this Act apply mutatis mutandis to the rights to which the performers, phonogram and audiovisual fixation producers and broadcasting organisations are entitled".

[13] This provision reads as follows: "The author has the right in particular to offer, transfer or otherwise distribute copies of the work."

[14] Copyright Act, Article 10(2)(a). This provision reads as follows: "The author has the right in particular to produce copies of the work, such as printed matter, phonograms, audiovisual fixations or data carriers."

[15] Copyright Act, Article 10(2)(c). This provision reads as follows : "The author has the right in particular to recite, perform or present a work, or make it perceptible somewhere else or make it available directly or through any kind of medium in such a way that persons may access it from a place and at a time individually chosen by them."

[16] *Loi fédérale sur la protection des marques et des indications de provenance (LPM)/Bundesgesetz über den Schutz von Marken und Herkunftsangaben (MSchG)*, classified compilation of federal law 232.11.

[17] Swiss Federal Tribunal, Case (*ATF/BGE*) 122 III 469, *Chanel SA Genève et Chanel SA contre EPA AG*.

[18] P. GILLIÉRON, *ad LPM, Article 13*, in: J. DE WERRA/P. GILLIÉRON (ed.), *Commentaire romand du droit de la propriété intellectuelle*, Basel 2013, § 23.

[19] *Chanel*, footnote 17.

[20] Swiss Federal Tribunal, Case (*ATF/BGE*) 124 III 321, *Imprafot AG gegn Nintendo Co. Ltd und Waldmeier AG*.

[21] Most scholars consider that this solution should also apply to designs. See for instance D. KRAUS/L. GHASSEMI, *ad LBI, Article 9a*, in: J. DE WERRA/P. GILLIÉRON (ed.), *Commentaire romand du droit de la propriété intellectuelle*, Basel 2013, § 23.

The Patent Act[22] provides for a specific provision regarding exhaustion; the principle is regional exhaustion.[23] According to Patent Act, Article 9a(1), "[i]f the proprietor of the patent has placed patent-protected goods on the market in Switzerland or within the European Economic Area, or consented to their placing on the market in Switzerland or within the European Economic Area, these goods may be imported and used or resold commercially in Switzerland." A similar rule applies to process patents: [i]f the proprietor has placed apparatus that can be used with a patent-protected process on the market in Switzerland or within the European Economic Area, or consented to its placing on the market in Switzerland or within the European Economic Area, the first and each subsequent person who acquires the apparatus is entitled to use this process."

Patent Act, Article 9a(4) clarifies in substance that when a product is protected by multiple IP rights, the principle of international exhaustion will prevail provided that the protection conferred by the patent for the functional characteristics of the product is of subordinate importance as compared to the trademark, the copyright or the design.

1.2 Some policy considerations

1.2.1 Interests of IP owners and end users

When it came to the choice between national and international exhaustion in Swiss copyright law, the Federal Tribunal balanced the interests of copyright owners and end consumers. Copyright owners, on the one hand, would benefit from national exhaustion as they could thus price discriminate among countries; thus, the incentive to create conferred by copyright would be increased. On the other hand, international exhaustion would increase the fluidity of exchanges and the creation of competition in the interest of end consumers. The balance tipped towards the latter. The Federal Tribunal notably stated that when copyrights owners are defining their marketing strategy, they simply have to take into consideration the fact that distribution in countries with low revenues may lead to parallel imports. The Federal Tribunal put more emphasis on the importance of ensuring the access for Swiss people to foreign cultural goods.[24]

It can further be pointed out that the Federal Tribunal rejected the argument according to which copyright owners have to provide Chinese consumers with very cheap copies in order to fight against piracy. The Federal Tribunal held that such considerations are outside the scope of Copyright Act, Article 12.[25]

1.2.2 Attention paid to foreign standards

As a general principle, the Federal Tribunal (as well as the federal legislature and the executive branch) takes into account solutions adopted abroad.[26] A particular attention is paid to the law of the European Union. Given the factual integration of the Swiss economy to the European market, the three branches of the federal state are generally aware of the necessity to have Swiss regulations as

[22] *Loi fédérale sur les brevets d'invention (LBI)/Bundesgesetz über Erfindungspatente (PatG)*, classified compilation of federal law 232.14.
[23] Patent Act, Article 9a(5), provides for an exception to the principle of regional exhaustion: products for whose price in Switzerland or in the country in which they are placed on the market is fixed by the state (essentially pharmaceutical products) are subject to national exhaustion.
[24] *Nintendo*, footnote 20, § 2(i).
[25] *Nintendo*, footnote 20, § 2(i) *i.f.*
[26] Interestingly, the Federal Tribunal refers occasionally to opinions of the US Supreme Court. This was notably the case in the *Nintendo* judgment. See *Nintendo*, footnote 20, § 2(i).

compliant as possible with EU law. That said, choices which differ from EU law are sometimes made. For instance, the *droit de suite* was rejected under Swiss copyright whereas it is required under EU law.[27] Recently, Prof. HILTY opened a symposium by recalling again that Switzerland does not automatically adopt EU law but freely transpose European standards into Swiss law when it is deemed appropriate.[28]

2. Exhaustion of copyright in the online industry

2.1 Preliminary observations

On the basis of the principles governing exhaustion under Swiss law presented above, the question whether copyright is exhausted when works are exploited online can be addressed.

At the outset, it is worth recalling how works can be technically transferred. The transfer of works can occur through the transfer of the tangible medium (CD, DVD, USB stick, external hard drive) in which a copy of the work is incorporated; the transaction underpinning the transfer may happen in the brick-and-mortar world or online but the transfer of the tangible medium is by definition made physically. Also – and this way of transferring works is of growing significance in practice – the work can be transferred online, typically via download from the Internet. In case of downloading, a new copy of the digital work is technically created on the hard drive of the acquirer.[29]

To my knowledge, one only case in Switzerland addresses the issue of copyright exhaustion in the context of online distribution: on 4 May 2011, the Zug Cantonal Tribunal handed down a judgment pertaining to the exhaustion of the distribution right when the copy of a computer program is sold online.[30] In substance, the court held that the transfer of a computer program for an unlimited period of time in consideration for a one-time payment qualifies as a transfer within the meaning of the distribution right when the copyright owner loses its rights to the transferred copy and is not entitled to recover it; this applies both to computer programs transferred with the tangible medium and online. Reference to this judgment will be made in the developments below where it is appropriate.

2.2 Is the distribution right really at stake?

2.2.1 Conundrum: the distribution medium

2.2.1.1 Opposing positions in the Swiss literature

It is generally admitted that copies transferred physically with the tangible medium are subject to the distribution right of Copyright Act, Article 10(2)(b). By contrast, the following question divides scholars in Switzerland: taking into consideration the plain language and the structure of the law, does the online distribution of copies fall within the distribution right, or within the communication

[27] PHILIPPIN, footnote 12, N 6.
[28] TAUFER-LAFFER, footnote 7, p. 403.
[29] This copy stays permanently (at least until it is made unusable) on the hard drive of a computer or the memory of a smartphone or tablet. For the sake of clarity, this situation has to be distinguished from temporary copies. Temporary copies typically occur when video files are streamed and stored for a short period of time in the computer's memory (buffer; RAM). See BRÄNDLI/TAMÒ, footnote 4.
[30] Judgment of the Zug Cantonal Tribunal of 4 May 2011, *Gebrauchtsoftware*, published in: sic! 2012, p. 99 *et seq*.

right set out in Copyright Act, Article 10(2)(c)?[31] Surprisingly, this question was not tackled by the Zug Cantonal Tribunal in *Gebrauchtsoftware*; this court addressed the question only from the distribution right perspective.[32]

According to CHERPILLOD, the online distribution of copies is exclusively subject to the communication right; the distribution right encompasses only the transfer of the tangible medium incorporating a copy. This scholar motivates his position in light of the 2008 amendment of the Copyright Act (and more specifically of the Federal Council's Message underlying this amendment) which introduced the right of making available as a subcategory of the communication right in Copyright Act, Article 10(2)(c).[33] As explained by the Federal Council, this introduction implements in Switzerland the right of making available provided for in WIPO Copyright Treaty, Article 8.[34] The Federal Council also clarified the relationship between the new communication right and the distribution right. For that purpose, the Federal Council referred to the Agreed Statements concerning Articles 6 and 7, and stated that the distribution right applies only to the distribution of fixed copies that can be put into circulation as tangible objects, excluding thus the distribution via digital transmission.[35]

On another hand, other prominent scholars support the application of the distribution right to the online distribution of copies. GILLIÉRON is of the view that the existence of a tangible medium is not required with respect to the distribution right.[36] Focusing on computer programs, RIGAMONTI specifies that WIPO Copyright Treaty, Article 8, cannot apply to their online distribution.[37] According to this scholar, if it is true that this provision encompasses the making available by any means or processes, it expressly excludes the distribution of copies.[38] Since the online distribution of software means the exploitation of the work in a tangible way through the distribution of copies of the work ("*ein Akt der körperlichen Werkverwertung durch Verbreitung von Werkexemplaren*"), the communication right does not apply. By contrast, WIPO Copyright Treaty, Article 6, is

[31] It is worth specifying that whatever approach is followed, the regime should be the same for both computer programs and other digital works since, as indicated in Section 1 above, the conditions for exhaustion are the same for these two categories of goods.

[32] A reason which may explain why the court did not discuss whether the communication right was at stake when copies are sold online may be that the plaintiff appears to have argued only from the perspective of the distribution right (the main argument being that the copy had not been transferred within the meaning of Copyright Act, Article 10(2)(b)). See *Gebrauchtsoftware*, footnote 30, p. 101.

[33] I. CHERPILLOD, *ad LDA, Article 10*, in: J. DE WERRA/P. GILLIÉRON (ed.), *Commentaire romand du droit de la propriété intellectuelle*, Basel 2013, § 15 and 25. See also the authors cited by C. P. RIGAMONTI, *Der Handel mit Gebrauchtsoftware nach schweizerischen Urheberrecht*, in: GRUR Int. 2009/1, p. 14 *et seq*., p. 20 (footnote 83).

[34] Federal Council, FF 2006 3263, *Message du 10 mars 2006 concernant l'arrêté fédéral relatif à l'approbation de deux traits de l'Organisation Mondiale de la Propriété Intellectuelle et concernant la modification de la loi sur le droit d'auteur,* p. 3285.

[35] Federal Council's Message, footnote 34, p. 3285.

[36] P. GILLIÉRON, *Le monde de l'audiovisuel à l'ère numérique*, in : sic ! 2009, p. 755 (p. 770). See also D. BARRELET/D. EGLOFF, *Le nouveau droit d'auteur – Commentaire de la loi fédérale sur le droit d'auteur et les droits voisins*, 3rd ed., Berne 2008, ad LDA, Article 10, § 16, and LDA, Article 12, § 1a. Regrettably, neither GILLIÉRON nor BARRELET/EGLOFF refer to the 2008 amendment of the Copyright Act and the underpinning international rules. More specifically, they do not explain how their approach may be compatible with said amendment and rules.

[37] RIGAMONTI, footnote 33, p. 20.

[38] The explicit exclusion of the distribution of copies is drawn from the Basic Proposal for the Substantive Provisions of the Treaty on Certain Questions Concerning the Protection of Literary and Artistic Works to Be Considered by the Diplomatic Conference, WIPO Doc. CRCN/DC/4 (August 30, 1996), § 10.14.

applicable to this kind of distribution:[39] as works downloaded from the Internet are necessarily tangible copies (these copies physically modify the hard drive of the acquirer),[40] they constitute fixed copies that were put into circulation as tangible objects within the meaning of the Agreed Statements concerning Articles 6 and 7. RIGAMONTI goes on to say that the Federal Council misunderstood the scope of the distribution right set out in the WIPO Copyright Treaty: Article 6 of this Treaty defines only the concept of "copy" and does not impose any limit on the nature of the distribution medium.[41] In light of this latter element, the positions of RIGAMONTI and GILLIÉRON seem to be aligned.

2.2.1.2 A look at EU law

In connection with the debate described in the previous Section, the *UsedSoft v. Oracle* case handed down quite recently by the ECJ is of significant interest.[42] Oracle, the Governments which have submitted observations to the Court, and the EU Commission argued that the distribution right referred to in the EU Software Directive relates only to tangible property and not to intangible copies of computer programs downloaded from the Internet. In that respect, they referred to WIPO Copyright Treaty, Article 8, and the Agreed Statements concerning Articles 6 and 7, whose transposition is one of the aims of the EU Copyright Directive (which in turn underpins the EU Software Directive).[43] The ECJ did not take explicitly position on the WIPO Copyright Treaty but stated in particular the following:

- Under the EU Software Directive, the right of distribution of copies of computer programs is not limited to copies of programs on a tangible medium such as a CD or DVD; there is no distinction made according to the tangible or intangible form of the copy in question.[44]
- The EU Software Directive is a *lex specialis* in relation to the EU Copyright Directive.[45]
- In conclusion, the distribution right with respect to the copy of a computer program is exhausted when said copy is transferred online.

From the perspective of the existing debate within Swiss law, these statements deserve attention for the following reasons:

- The ECJ considered that the online distribution of software can fall within the distribution right, contrary to the position adopted by the Federal Council (it being recalled that this position was not limited to software). That said, when the ECJ states that the EU Software Directive is a *lex specialis* in relation to the EU Copyright Directive, it seems to implicitly mean that a different solution would (or at least could) prevail under the EU Copyright Directive. Put differently, the online distribution of copies of digital works other than computer programs would not fall within the distribution right in the EU Copyright Directive; this approach would be in line with the one of the Federal Council.
- In connection with the previous point, it should be kept in mind that the EU Software Directive does not provide for a communication right. The situation is different in Switzerland since Swiss law does not have a particular body of law applicable specifically to the protection of computer programs.

[39] RIGAMONTI, footnote 33, p. 21.
[40] With respect specifically to the concept of tangible copies as the result of downloading, see RIGAMONTI, footnote 33, p. 17.
[41] For additional scholars who took the same position as RIGAMONTI with respect to the interpretation of the WIPO Copyright Treaty, see RIGAMONTI, footnote 33, p. 21 (footnote 102).
[42] *UsedSoft*, footnote 7.
[43] *UsedSoft*, footnote 7, § 53.
[44] *UsedSoft*, footnote 7, § 55 and 59. In this respect, the ECJ referred to the wording of EU Software Directive, Article 4(2), which does not make any distinction based on the medium.
[45] *UsedSoft*, footnote 7, § 56.

- The ECJ said that a copy can be intangible and thus assimilated the nature of the copy with the nature of the medium. Such an approach differs from the position supported notably by RIGAMONTI according to whom, as indicated above, a copy is necessarily tangible and exploited in a tangible way.

2.2.1.3 Personal opinion

In my view, the online distribution of copies of computer programs and other digital works falls under the communication right of Copyright Act, Article 10(2)(c). As a consequence, such distribution cannot lead to the exhaustion of copyright. This conclusion is based on the fact that Swiss law has to comply with WIPO law; under WIPO law, the online distribution of copies is subject to the communication right.

The distribution right set forth in WIPO Copyright Treaty, Article 6, does not apply to the online distribution of copies of computer programs and other digital works. True, digital copies transferred online physically modify the hard disk of the acquirer. However, these copies cannot reasonably qualify as fixed copies that are put into circulation as tangible objects. Two arguments can essentially be put forward in that regard. First, the interpretation according to which the concept of tangible objects would encompass modifications of the hard disk when works are downloaded online would stretch the concept of tangible objects to an extreme extent which seems hardly compatible with its literal meaning. It should be noted in that respect that the ECJ explicitly considered copies downloaded from the Internet as intangible copies. Second, the full sentence "fixed copies that are put into circulation as tangible objects" makes clear that it is the tangible objects incorporating copies that are put into circulation; this sentence does not say that tangible objects are created as the result of the fact that copies are put into circulation.

The communication right set forth in WIPO Copyright Treaty, Article 8, applies to the online distribution of copies of computer programs and other digital works. It is correct that this provision excludes the distribution of copies. However, it does so only to the extent that the distribution of copies falls within the distribution right. If, as it is the case here, the distribution of copies does not fall within the distribution right, nothing prevents the distribution of copies from falling within the communication right.

In light of *UsedSoft*, can or should Swiss law be interpreted in a different fashion (at least with respect to computer programs)? True, the 2008 amendment of the Copyright Act was directly inspired by the respective regulation in the EU. The Federal Council stated that such an amendment of the Copyright Act would largely harmonize Swiss and EU law in this field.[46] That said, as important or positive the harmonization of Swiss and EU law may be, it does not mean that *UsedSoft* is applicable in Switzerland. In addition, the euro-compatibility of Swiss law should not be a valid argument as such; in particular if in so doing Swiss law would violate the WIPO Copyright Treaty.

2.2.2 Concept of transfer: a relatively broad interpretation

Exhaustion requires in addition the transfer of the rights to a copy. The question here should not focus on the technicalities regarding the copy; transfer should not be excluded because in the context of digital distribution a new copy is technically made on the hard drive of the acquirer or, in

[46] Federal Council's Message, footnote 34, p. 3281.

other words, the same copy is not factually handed over by owner to the acquirer. The question is rather whether the copyright owner disposes of his or her rights to a copy.[47]

In the context of online distribution of copies, the full transfer of ownership is unlikely, in particular with respect to software. The online transfer of copies typically takes the form of a license, which means that some rights are retained by the copyright owner.[48]

It results from the foregoing that the question boils down to the extent to which rights must be transferred to conclude that the distribution right is exhausted (assuming that this right may be exhausted which, as indicated in the previous Section, should not be possible). In that respect, the agreement between the copyright owner and the acquirer has to be primarily examined. A license of indefinite duration in consideration for a single payment is deemed as a sufficient transfer of the rights within the meaning of Copyright Act, Article 12(1) and (2).[49] This should also be the case when the license is of long duration, *i.e.* a duration equivalent to the commercial life of the software. In this latter situation, the following elements – according to the Zug Tribunal Cantonal – should however prevent the transfer of the rights to a copy: obligation imposed on the user to delete the computer program from all its devices and to give the program back to the copyright owner when the contract expires or is terminated; support by the software owner for the duration of the agreement in order to fix bugs or improve the software; maintenance of the software for the duration of the agreement.[50]

In the future – in particular as a response to the *UsedSoft v. Oracle* judgment – copyright owners (software providers and owners of copyright on other digital works) may tend to grant licenses for a limited period of time via a rental model. One may wonder whether such evolution could deprive the exhaustion doctrine of practical interest in the context of online distribution. To some extent, it may well be the case. However, we can also expect from copyright owners to differentiate their offers: some of them may precisely choose to sell their rights and try to attract consumers on this basis; this may prove successful in particular with respect to consumers willing to create digital libraries of music or movies.

2.3 Reproduction right: no self-standing issue

As indicated above, each online transfer leads to the creation of a new copy of the work.[51] The question then arises whether the second acquirer infringes on the reproduction right when he or she acquires a copy of the work. Similarly, does the first acquirer infringe on the reproduction right when he or she makes the work available to a third party (secondary liability)?[52]

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[47] See also RIGAMONTI, footnote 33, p. 18.

[48] From a terminological perspective, it is sometimes referred in practice to sale agreements. In fact, these sale agreements contain restrictions which assimilate them rather to licenses.

[49] This position is shared by the majority of scholars in Switzerland. See in that respect RIGAMONTI, footnote 33, p. 18 and the references cited. Also, *Gebrauchtsoftware*, footnote 30, p. 101 *et seq*.

[50] *Gebrauchtsoftware*, footnote 30, p. 102. The Zug Cantonal Tribunal specified that restrictions imposed on the acquirer on the resale of copies do not prevent exhaustion. In this respect, see Section 4 below.

[51] See Section 2.1 above.

[52] With respect to secondary liability in the IP context under Swiss law, see I. CHERPILLOD, *Violation des droits de propriété intellectuelle: complicité et instigation*, in: A. RAGUENEAU (ed.): Internet 2003, Lausanne 2004, p. 215 *et seq*. In this context, it is worth pointing out that ReDigi – which operated a service billed as an online "used record store" for pre-owned digital music downloads – was found to be a direct infringer by the US District Court for the Southern District of New York. See *Capitol Records v. ReDigi*, footnote 9, § III.C.1.

The answer to that question depends essentially on the position adopted with respect to the exhaustion issue discussed above. Should it be recognized that the online distribution falls within the distribution right and exhaust that right, the second acquirer lawfully acquires a copy of the work from the first acquirer. The second copy is technically related to that second acquisition so that it can logically not be considered as infringing on the reproduction right of the copyright owner.

Such reasoning is supported by the plain language of the law as regards computer programs: according to Copyright Ordinance, Article 17(1)(a), the reproduction of the computer program by the lawful acquirer does not violate the reproduction right of the copyright owner when the reproduction is necessary for the use of the computer program.[53]

The law does not provide for similar provisions with respect to other digital works; this lack of applicable provision can be considered as a loophole. However, no reason seems to justify a different treatment to the one applicable to software. For the sake of consistency, it is therefore justified to consider that the copyright owner cannot claim the reproduction right to prevent the second acquirer from copying the digital work (assuming, again, that the distribution right is exhausted).

As a side note, when the acquirer reproduces the digital work for its private use, he or she benefits from the exception set forth in Copyright Act, Article 19. This defense does however not apply to the reproduction of computer programs (Copyright Act, Article 19(4)).[54] Moreover, the private use defense should in principle not apply to the reproduction (if any) by companies acting as intermediaries for the resale of "used" digital works.

2.4 Taking into account the (dis)similarity of the physical and online transfers

2.4.1 Economic similarity: an argument for exhaustion

As indicated in the previous Sections, considering the plain language and structure of the law, it is in my view rather unlikely that one can validly argue that the distribution (and reproduction) right of the copyright owner is exhausted when digital copies are transferred online. Thus, the question arises whether the transfer of copies with the tangible medium and online are economically so similar that the doctrine of exhaustion should apply by analogy to the online distribution.[55]

Economic similarity can be supported as follows: in the online environment, the distribution of the tangible medium is simply replaced by the downloading of the digital copy on the hard disk of the acquirer. Thus, if the copy of a work is permanently downloaded with the consent of the copyright owner (download-to-own), the acquirer should benefit from the exhaustion defense, and have the

[53] *Ordonnance sur le droit d'auteur et les droits voisins (ODAu)/Verordnung über das Urheberrecht und verwandte Schutzrechte (URV)*, classified compilation of federal law 231.11. See also RIGAMONTI, footnote 37, p. 24.

[54] P.-E. RUEDIN, *ad LDA, Article 19*, in: J. DE WERRA/P. GILLIÉRON (ed.), *Commentaire romand du droit de la propriété intellectuelle*, Basel 2013, § 53 and 98 *et seq*.

[55] As argued by some prominent scholars, it would be more appropriate to address the whole issue of digital transfer from the perspective of the implied license theory. HILTY/KÖKLÜ/HAFENBRÄDL, footnote 5, p. 282. Since the present paper focuses on the principle of exhaustion, the implied license theory will not be addressed.

right to distribute the copy further. Of course, this latter right would be subject to the fact that the copy downloaded by the acquirer is definitely deleted.[56]

Fundamentally, this approach is underpinned by the argued necessity to redefine the right balance between the appropriate incentive to create and the sufficient access to works. In the analog world, the right balance was found thanks to the exhaustion doctrine: the distribution right gives potential authors a sufficient incentive to create while the public may have access to the copies of works which are put in the market. In addition, exhaustion allows the development of competition through the creation of a secondary market; acquirers of copies may compete with copyright owners, notably if they offer used copies for cheaper prices. In the online environment, this equilibrium is arguably breached in the absence of exhaustion: authors getting profits from the first and subsequent sales of copies may be excessively rewarded and competition through the creation of a secondary market prevented.

2.4.2 Grounds for rejection

The argument according to which the physical and online distributions of copies are economically similar is appealing and not deprived from merits. For the reasons explained hereinafter, this argument is however not fully persuasive and should be accepted only with caution.

2.4.2.1 Absence of loophole in Swiss law

As an initial matter, the argument fails to take into consideration the fact that the law is clear. On the basis of the WIPO Internet Treaties and the Federal Council's Message,[57] the Swiss legislature amended Copyright Act, Article 10(2)(c), – and not Copyright Act, Article 10(2)(a) or (b) or Article 12 – being thus aware that copies distributed online would not be subject to the exhaustion doctrine. Thus, there is no loophole in Swiss law. The law must therefore be applied at it is, even if this application leads to what some scholars and practitioners would consider as an unfortunate outcome.[58]

2.4.2.2 Technological differences

One may actually wonder whether the physical and online distributions are economically really similar: isn't there an increased risk of copyright violation by the first and subsequent average acquirers when the copy is initially distributed online, *i.e.* acquirers would disseminate the copy without deleting it from their own devices? If it is the case, it seems then justified to treat physical distribution and online distribution differently.[59] It should be noted that here, economics and technology are closely interrelated.

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[56] See for instance PHILIPPIN, footnote 12, § 13; *Gebrauchtsoftware*, footnote 30, p. 103 *et seq*. and the cited references; HILTY/KÖKLÜ/HAFENBRÄDL, footnote 5, p. 280 *et seq*.

[57] Federal Council's Message, footnote 34.

[58] For instance, PHILIPPIN states that "*nothing justifies* the ban on the online acquirer of a copy to resell this specific copy" [emphasis added]. PHILIPPIN, footnote 12, § 13. Similarly, the Zug Cantonal Tribunal stated that it does see why online distribution and distribution through the transfer of the tangible medium should be treated differently. *Gebrauchtsoftware*, footnote 30, p. 104. At first sight, it seems that one way to avoid the problem of absence of loophole and the related impossibility to apply by analogy the doctrine of exhaustion is to address the issue from the perspective of the implied license theory.

[59] This question is quite extensively discussed by RIGAMONTI, footnote 33, p. 19 *et seq*., who further refers to several scholars.

The answer to the question depends first on whether technologies ensuring that an existing digital copy is deleted when the copy is transferred to a third party are available (in economic terms, the technology would make the digital copy rivalrous).[60] The *ReDigi* case[61] shows how imperfect technologies may be in that respect. As CAPOBIANCO explains: "During the process of uploading a song to ReDigi's Cloud Locker (either for storage or eventual sale) the software automatically checks for remaining copies of the song on the user's computer or connected devices. […] However, the fair use copy a user makes in order to listen to the song on her portable music device cannot be reached by ReDigi's software if the device is not connected to the computer. For example, a user may purchase a song from iTunes, copy it to her iPhone, detach the iPhone, and then upload the song to the ReDigi Cloud Locker. While the software would try to delete all copies of the song except for the one now in the cloud, it could not delete the copy on the iPhone until the device is reconnected."[62]

Second, the efficiency of technologies designed for digital copies and copies incorporated in a tangible medium should be compared. Obviously, a different treatment of online and physical distributions would be justified only if the technologies designed for digital copies are not as efficient as those protecting CDs, DVDs or Blu-Rays.

This two-part analysis requires the following additional observations:

- The type of digital work should be taken into account when the efficiency of the technology is evaluated. As indicated above, ReDigi's technology designed for music files does not appear to be addressing all the concerns related to the creation of multiple copies. By contrast, technologies designed for software seem much more efficient.[63]
- The variety of technologies requires a case-by-case analysis. In addition, one should keep in mind that technologies may evolve (quickly). A legal solution which would be adequate today may not reflect the state of the technological art in the future.[64]
- Lawyers should recognize that they cannot deal alone with the present issue, as it requires a deep understanding of how technologies work. Consequently, lawyers should work in close collaboration with technologists.[65]

2.4.2.3 Need to preserve a leveled playing field

[60] Such technologies must be distinguished from technological protection measures (DRM). According to PHILIPPIN, this latter type of measures violates Copyright Act, Article 39a(4), which provides that "[t]he ban on circumvention may not be enforced against those persons who undertake the circumvention exclusively for legal permitted uses". PHILIPPIN, footnote 12, § 13 *i.f.* In my view, assuming that the exhaustion principle can apply, not all DRM measures should be deemed unlawful. DRM measures preventing the acquirer from copying the work should be permitted when the copyright owner does not intend to definitely transfer the copy of the work to the first acquirer.

[61] *ReDigi*, footnote 8.

[62] CAPOBIANCO, footnote 9, p. 418.

[63] CAPOBIANCO, footnote 9, p. 419 *et seq*., referring to the entry of an alpha-numeric product code to authenticate prior to the use of the software.

[64] CAPOBIANCO, footnote 9, p. 420 *et seq*. In this connection, one should never forget that some people may be able to come up with technologies that would have precisely the opposite purpose, namely allowing the first acquirer to both keep his or her copy of the work and sell additional copies of said work.

[65] In addition, the point of view of experts in social sciences would also be useful. It is indeed not unreasonable to assume that average people getting copies online are more willing to disseminate those copies than "more traditional" buyers of copies incorporated in a tangible medium.

Assuming that efficient technologies ensuring that an existing digital copy is deleted when the copy is transferred to a third party are available, the next problem is the cost that such technologies would represent for creators and start-ups. These costs may be (excessively) high and burdensome for many potential authors and copyright holders. Only well established authors and companies would be able to afford such costs. Thus, they would prevent the creation of a leveled playing field for all participants in the market.

In this connection, the following argument was brought up: if it is indeed true that it is more risky for the copyright owner to distribute copies online (*i.e.* there is an increased risk of copyright infringement), then the copyright owner remains free to stick to physical distribution.[66] This reasoning is not acceptable as it would prevent the creation of a leveled playing field. Again, small companies may not afford the costs generated by efficient measures to fight against infringements; such companies would thus primarily be forced to distribute copies physically. As a result, they would be at competitive disadvantage in the market.

2.4.3 Lessons from *Nintendo* and *UsedSoft*?

In *Nintendo*,[67] the Federal Tribunal gave priority to free access of end users to copyrighted works as opposed to a stronger protection conferred by copyright. True, the context differed from the one of online distribution. That said, if confronted to the question of exhaustion when copies are distributed online, the Federal Tribunal may follow the past trend and favor once again the free access of end users to copyrighted works over copyright protection.

Furthermore, *Nintendo* is of interest on a more specific point. As indicated, the Federal Tribunal rejected the piracy argument and held that such a consideration is outside the scope of Copyright Act, Article 12. In light of this position, it appears unlikely that the Federal Tribunal would be sympathetic to the argument that copies distributed online should not be subject to exhaustion because there is an increased risk of copyright violation by the first and subsequent acquirers i.

As a final note, it is rather surprising to see that the considerations regarding the increased risk of copyright infringement were not tackled by the ECJ in the *UsedSoft v. Oracle* case. Obviously, the ECJ said that "[a]n original acquirer who resells a tangible or intangible copy of a computer program for which the copyright's holder right of distribution is exhausted [...] must, in order to avoid infringing the exclusive right of reproduction of a computer program which belongs to its author [...] make its own copy unusable at the time of its resale."[68] That said, the ECJ did not address the question whether there might be differences in practice between copies transferred physically and online that would justify a different treatment. Because of this lack of clarification, it is far from certain that the *UsedSoft* holding can be transferred to digital works other than software.

3. Exhaustion of other IP rights in the online industry

Copyright is not the only IP right that is relevant in the digital environment; the protection conferred by trademark can also apply to digital goods. Considering the position in Switzerland on software patents (aligned to the EU), patents should not really play a role in the present context.

[66] RIGAMONTI, footnote 33, p. 20.
[67] See Section 1.2.1 above.
[68] *UsedSoft*, footnote 7 § 70. The ECJ also added some explanation for cases of licenses with multiple users.

In *Gebrauchtsoftware*, the Zug Cantonal Tribunal correctly started by recalling that the purpose of trademark law is to individualize goods and thus to prevent confusion for the consumer.[69] With this element in mind, the court assessed the practice of purchasing a computer program online, incorporating it in a tangible medium, reproducing on the tangible medium the trademarked sign of the software developer, and reselling said medium. The court hold that the acquirer is allowed to reproduce on the tangible medium the trademarked sign put by the software developer on the software now embodied in the tangible medium; neither the fact that the sign was not put on the tangible medium by the trademark owner nor that the trademark owner could not approve such affixation (because of the choice of distributing the software online) was deemed relevant. According to the court, the behavior does not endanger the individualization function of the trademark.[70]

Also, the court stated that if the acquirer was not entitled to affix on the tangible medium the sign of the trademark owner (and thus refer to the program which is embodied in said medium), he or she would be basically prevented from reselling the copy of software in compliance with the exhaustion principle under copyright law.[71]

One can draw from the above that a trademark should *a fortiori* not be infringed when the good is resold online. In such circumstances indeed, it seems that the individualization function of the trademark should be even less endangered.

As an aside, it may be interesting to mention that the Plaintiff in *Gebrauchtsoftware* also raised an unfair competition claim based on the use by the defendant of license certificates (approved by a notary) stating the different companies involved in distribution of the computer program; according to the plaintiff, said license certificates were misleading as they suggested that the defendant had a license allowing the further transfer of the software. The court dismissed the claim on the ground that the copyright was exhausted. Also, the certificates did not provide any information as to the rights granted by the plaintiff to the first company involved in the distribution of the software. Finally, the court pointed out that, assuming the certificates would be misleading, only their use could be enjoined, not the transfer of the computer program.[72]

4. Contracting around exhaustion

4.1 Intellectual property and contract law

An additional important (and difficult) issue is whether a copyright owner and the acquirer of a copy can contractually agree on a restriction for the acquirer to resell the acquired copy (in case of online transfer, assuming that copyright is exhausted). Generally, this issue has to be addressed from a twofold perspective. From a copyright perspective first, the point is whether any provision in Swiss copyright law prevents the parties from contracting around the principle of exhaustion. Second, is there any rule under contract law that limits such contractual strategies?

As indicated above, once the rights to a copy are transferred, the copyright owner loses his or her distribution right to the specific copy. That said, nothing in the Copyright Act explicitly prevents

[69] *Gebrauchtsoftware*, footnote 30, p. 104.
[70] *Gebrauchtsoftware*, footnote 30, p. 105.
[71] *Gebrauchtsoftware*, footnote 30, p. 104.
[72] *Gebrauchtsoftware*, footnote 30, p. 105 *i.f.*

the parties from contracting around that rule. In addition, it does not seem that such a prohibition could implicitly result or be drawn from the Copyright Act.[73]

Contract law does not prohibit agreements whose purpose is to counter the effects of exhaustion; according to the Swiss Federal Tribunal, such agreements are generally permitted, it being nonetheless specified that they produce an effect only among the parties to the agreement (and not an *erga omnes* effect based on copyright law).[74] That said, the form of the agreement can matter in this context. RIGAMONTI correctly points out that restrictions on the resale of copies are often drafted in general terms and conditions. In those circumstances, the restrictions may well be deemed unusual and, consequently, be unenforceable.[75]

4.2 Competition law

4.2.1 Material scope

Considering that arrangements around the principle of exhaustion prevent the acquirer from competing against the copyright owner, they potentially raise – in addition to contract law – competition law concerns.

Restrictions on the resale of copies are likely to fall within the scope of the Federal Act on Cartels.[76] Cartel Act, Article 3(2), which excludes the application of this Act to behaviors that result exclusively from the legislation on intellectual property, should not apply to restrictions on the resale of copies.[77] Indeed, since their purpose is to extend exclusivity where copyright no longer exists (because it is exhausted), restrictions on the resale of copies are out of the scope of copyright and therefore cannot be deemed to result exclusively from the legislation governing this type of IP.

Whether restrictions on the resale of copies violate the Cartel Act is a separate question. Contracts containing such restrictions raise issues from the perspective of both the rules on unlawful agreements and abuses of a dominant position.

4.2.2 Unlawful agreements

To the extent that restrictions on the resale of copies fully prevent the acquirer from reselling the copy, they go further than agreements imposing full territorial or customer restrictions on the counterparty. Put differently, the acquirer of the copy is not only prevented from fully competing against the copyright owner or other acquirers in a specific territory or with respect to a defined

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[73] RIGAMONTI, who deals with the restriction on the resale of copies, does not say that this practice may be prohibited on the basis of copyright law. See C. P. RIGAMONTI, *Zur Rechtsmässigkeit des Handels mit Softwareproduktschlüsseln*, in: Aktuelle Juristische Praxis/Pratique Juridique Actuelle 2010/5, p. 582 *et seq.* (in particular p. 587 *et seq.*).

[74] *Nintendo*, footnote 20, § 3.

[75] RIGAMONTI, footnote 73, p. 588 *et seq.*

[76] *Loi fédérale sur les cartels et autres restrictions à la concurrence (LCart)/Bundesgesetz über Kartelle und andere Wettbewerbsbeschränkungen (KG)* (classified compilation of federal law 251).

[77] According to the Swiss Competition Commission and the most recent literature, Cartel Act, Article 3(2), is not even invested with any normative force but aims simply at drawing the attention to the fact that the specificities of intellectual property should be taken into account in the competition law analysis. In this respect, see A. ALBERINI, *ad LCart, Article 3(2)*, in: J. DE WERRA/P. GILLIÉRON (ed.), *Commentaire romand du droit de la propriété intellectuelle*, Basel 2013.

group of customers but from competing at all. Consequently, restrictions on the resale of copies should not benefit from a more lenient treatment than territorial or customer restrictions.[78]

Full (or absolute) territorial and customer restrictions generally fall within the presumption of elimination of competition provided for in Cartel Act, Article 5(3) or (4).[79] In light of the foregoing, restrictions on the resale of copies should be subject to the same treatment.[80] Traditionally, falling within one of these presumptions practically meant that the restrictions were *per se* unlawful. Recently though – this is in my view a positive evolution[81] – the Swiss Competition Commission adopted a more economic approach and hold in substance that hardcore restrictions such as the ones at stake here are not unlawful if they do not significantly impede competition.[82]

With respect to the restrictions on the resale of copies, determining the significant impediment to competition essentially requires an assessment of the position of the copyright owner in the relevant market. If he or she benefits from market power and said power is protected by barriers to expand or entry, a significant impediment to competition is likely to be admitted. It should be noted that markets for music or videos are typically characterized by imperfect competition; this makes the definition of the relevant market and the identification of market power difficult.[83]

Provided that the parties are in a non-competitive relationship, one way to minimize the competition law risk is to structure the contracts for the transfer of copies in accordance with the rules applicable to distribution agreements.[84] Another option is to adjust the contracts to the European rules governing technology transfer agreements.[85] The problem related to these options is that the rules provided for distribution agreements or technology transfer agreements make sometimes little economic sense in the context of copyright. With respect more specifically to the European rules on

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[78] A question which arises in this context is whether an agreement between a company providing digital goods and an end-consumer qualifies as an agreement within the meaning of competition law. It may be recalled that the concept of agreement encompasses only agreements between undertakings, *i.e.* among entities operating in the market on a regular basis. At first glance, the end-consumer cannot be considered as an undertaking. That said, end-consumers increasingly tend to resell products on the Internet. It may therefore not be unreasonable to rethink the concept of undertaking in light of this evolution. If the concept of undertaking is broadly interpreted, an agreement between a company providing digital goods and an end-consumer may qualify as an agreement within the meaning of competition law.

[79] Cartel Act, Article 5(3), applies to agreements between competitors while Cartel Act, Article 5(4), applies to agreements between non-competitors.

[80] It can be argued that Cartel Act, Article 5(4), should not apply to most restrictions on the resale of copies in online agreements because this provision, according to the language of the law, applies only to distribution agreements implementing an absolute territorial protection mechanism. This limitation to distribution agreements is however often perceived as a drafting mistake; thus, the provision should generally apply to all types of vertical agreements.

[81] A. ALBERINI, *Droit des accords verticaux: De l'enfance à l'adolescence*, in : Semaine Judiciaire 2010 II, p. 123 *et seq* (in particular p. 130 *et seq*.).

[82] See for instance the recent *Kosmetikprodukte* case handed down by the Swiss Competition Commission and summarized in C. BOVET/A. ALBERINI, *Recent developments in Swiss competition law*, in: Swiss Review of Business and Financial Market Law (to be published).

[83] For an excellent paper on this topic under US law but whose fundamental principle can be transposed to other jurisdictions, see M. A. LEMLEY/M. P. MCKENNA, *Is Pepsi really a substitute for Coke? Market definition in antitrust and IP*, in: Georgetown Law Journal 2012, Vol. 100, p. 255 *et seq*.

[84] In this respect, see Communication on vertical restraints adopted by the Swiss Competition Commission on 28 June 2010.

[85] Communication from the Commission – Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements, OJ 2014 C 89/3 (with respect to copyright, in particular § 47 *et seq*. and 62 *et seq*.).

technology transfer agreements, it is in addition unclear to what extent they can be followed in Switzerland; so far, the Swiss Competition Commission has not regulated this category of agreements.

As a last note, one case that should be highly problematic under Swiss competition law is the insulation of the Swiss market. This happens when agreements provide for contractual restrictions according to which the acquirer of a digital copy in the EU is not allowed to resell it to customers located outside the EU, which means notably Switzerland.[86] Such agreements should be avoided.

4.2.3 Abuse of a dominant position

From the perspective of the abuse of a dominant position, the main question is whether restrictions on the resale of copies qualify as the imposition on business partners of unfair trade terms according to Cartel Act, Article 7(2)(c) – providing of course the copyright owner holds a dominant position. Referring notably to European law, RIGAMONTI supports that such restrictions are abusive because they are not directly related to the object of the contract they are stipulated in and limit significantly and without material ground the ability of the acquirer to use his or her property.[87] In my view, the restrictions on the resale of copies are not necessarily abusive in presence of a dominant position. As CLERC/KËLLEZI explain, a balance must be struck between the interests of the dominant undertaking, the significance of the restrictions for the counterparty and possible limitations for third parties to compete. These scholars go on to say that trading terms are unfair when they are exceptionally favorable to the dominant undertaking and particularly unfair for trading partners whose ability to compete is seriously reduced.[88] In light of these considerations, whether restrictions on the resale of copies are abusive depends on the circumstances of each case.

5. Some (practical) considerations relating to remedies

If – as argued in this paper – exhaustion is not a valid defense to the claim of violation of the distribution and reproduction rights when digital goods purchased online are resold, the copyright owner can pursue the remedies generally available under Swiss copyright law.[89] A central issue in this context is territoriality.[90]

The *Gebrauchtsoftware* case is instructive as it sheds some light on this specific problem.[91] At the outset, it has to be specified that the plaintiff (the software developer) provided the defendant headquartered in Switzerland with the product *via* two successive German distributors. The defendant then transferred the software to two companies based respectively in Germany and in the UK.[92]

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[86] BMW was for instance heavily fined for restricting in its agreements in the EU the ability of end-users residing in Switzerland to freely purchase motor vehicles from authorized distributors located in the EEA. In this respect, see C. BOVET/A. ALBERINI, *Recent developments in Swiss competition law*, in: Swiss Review of Business and Financial Market Law 2013/2, p. 158 *et seq*., § 9.

[87] RIGAMONTI, footnote 73, p. 590 *et seq*.

[88] E. CLERC/P. KËLLEZI, *ad LCart, Article 7(2)*, in : V. MARTENET/C. BOVET/P. TERCIER (ed.), *Commentaire romand du droit de la concurrence*, Basel 2013, § 176.

[89] Copyright Act, Articles 61 *et seq*. With respect to preliminary measures, Copyright Act, Article 65.

[90] From a strict methodological perspective, territoriality does not relate to remedies but to the scope of Swiss copyright law. In practice though, territoriality is a question which is often discussed in relation to procedural choices and remedies.

[91] *Gebrauchtsoftware*, footnote 30.

[92] *Gebrauchtsoftware*, footnote 30, p. 99 *et seq*. It should be noted that the Swiss defendant provided its German and UK counterparties with copies of the software incorporated in a tangible medium.

The key element is the following: the Zug Cantonal Tribunal focused on the fact that no Swiss customer had been supplied by the defendant. On this basis, the court held that the alleged infringing activity did not have any impact on the Swiss territory and the plaintiff did not suffer any damage in Switzerland. Therefore, the defendant could not be (temporary) enjoined from reselling copies of computer programs to foreign purchasers.

The approach adopted by the Zug Cantonal Tribunal shows a restrictive interpretation of the principle of territoriality. Discussing whether this interpretation is correct or appropriate is beyond the scope of the present contribution.[93] That said, the takeaway for copyright owners is that it may be difficult to enforce their distribution and reproduction rights against individuals and companies located in Switzerland and reselling copies abroad. By contrast, individuals and companies located in Switzerland may be advised – from a Swiss law perspective – to resell copies to purchasers outside this country.

6. Conclusion

The main findings of the present contribution can be summarized as follows:

- At the outset, it is worth emphasizing that Swiss law does not have to comply with EU law and Swiss courts remain free to take into account EU law when they interpret and apply Swiss law.
- The question whether digital copies transferred online are subject to copyright exhaustion under Swiss law is highly controversial. The discussion essentially focuses on the interpretation of the Swiss Copyright Act in light of the WIPO Internet Treaties. According to the *Gebrauchtsoftware* decision handed down in 2011 by the Zug Cantonal Tribunal, the online transfer of software exhausts the distribution right; it should however be noted that the court did not refer to the WIPO Internet Treaties. To date, no case regarding other types of digital works (music, videos) exists in Switzerland.
- Some scholars suggest that the principle of exhaustion could be applied by analogy to digital copies transferred online. This approach is certainly interesting. Nevertheless, it raises certain issues. Particularly, digital copies may be much more subject to acts of infringement than copies incorporated in a tangible medium. This difference may prevent the analogical reasoning from applying.
- IP rights other than copyright should not play a major role in the present context. In the *Gebrauchtsoftware* decision, the assessment under trademark law appeared to be essentially ancillary to the copyright analysis.
- Contracting around exhaustion raises serious issues from a Swiss competition law perspective, in particular under the rules applicable to unlawful agreements. In order to minimize the competition law risk, contracts relating to the transfer of digital goods should observe the same standards as traditional distribution agreements or technology transfer agreements.
- Any strategy aiming at pursuing remedies when copies of digital goods are resold by the acquirer to third parties should consider the difficulties that may arise in relation to cross-border transactions. The *Gebrauchtsoftware* case shows that suing a company based in Switzerland may be pointless if the computer programs were transferred by said company to customers located abroad.

[93] On this difficult question, see for instance F. DESSEMONTET, *ad LDA, Article 1*, in: J. DE WERRA/P. GILLIÉRON (ed.), *Commentaire romand du droit de la propriété intellectuelle*, Basel 2013, § 17 *et seq*.

More fundamentally, considering the non-rivalrous nature of digital goods and the high degree of piracy in the online world, the principle of exhaustion should not be so easily transposed – as it is sometimes argued – to online distribution. Such an extended application of the principle of exhaustion should be conditional upon the availability of efficient technologies ensuring that a digital copy cannot be indefinitely reproduced and disseminated.

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