

Question B

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

International reporter: Prof. Vincenzo Franceschelli, Università di Milano-Bicocca. E-Mail: lexfran@tin.in

Czech national reporter: Karin Pomaizlova, attorney-at-law, Prague

Currently a question arises whether the state of legislature keeps up with the technology development, whether we need to amend national laws, European law, or not. Czech Republic is no exception. Currently the principle of exhaustion of IP rights on digital media is subject to public discussion. The definite answer can be only provided by a decision of the Supreme Court of the Czech Republic, which has yet to receive a case that would involve this legal problem. As Czech Republic is part of the European Union, the interpretation of the national laws has to be also compliant with the EU directives and ECJ/CJEU interpretation thereof. This paper mainly focuses on the issue of copyright exhaustion, as copyright/author's rights are the most frequent rights that apply to digital media and on-line industry, and also on the exhaustion of trademark rights.

1. AUTHOR'S ACT NO. 121/2000 COLL.

The Author's Act no 121/2000 Coll., as amended, provides protection to the following works:

Article (1)

*"The subject matter of copyright shall be a literary work or any other work of art or a scientific work, which is a unique outcome of the creative activity of the author and is expressed in any objectively perceivable manner **including electronic form**, permanent or temporary, irrespective of its scope, purpose or significance (hereinafter referred to as "work"). A work shall be, without limitation, a literary work expressed by speech or in writing, a musical work, a dramatic work or musical-dramatic work, a choreographic work and pantomimic work, a photographic work and a work produced by a process similar to photography, an audiovisual work such as a cinematographic work, a work of fine arts such as a painting, graphic or sculptural work, an work*

of architecture including an urban design work, a work of applied art, and a cartographic work.

(2)

A computer program shall also be considered a work if it is original in the sense that it is the author's own intellectual creation. A database which by the way of the selection or arrangement of its content is the author's own intellectual creation, and in which the individual parts are arranged in a systematic or methodical way and are individually accessible by electronic or other means, is a collection of works. No other criteria shall be applied to determine their eligibility for that protection. A photograph or a work produced by a process similar to photography, which are original in the sense of the first sentence, shall be protected as a photographic work.

(3)

A collection like a journal, encyclopedia, anthology, exhibition, or any other collection of independent works or other elements that by reason of their selection and of the arrangement of the content meet the conditions set out in Paragraph 1 above, is a collection of works.

(4)

The items that are not works hereunder, shall include, but are not limited to the theme (subject) of a work as such, the news of the day and any other fact as such, an idea, procedure, principle, method, discovery, scientific theory, mathematical and similar formula, statistical diagram and similar item as such.

(5)

Alongside the author's right to his work, the Czech Author's Act also provides protection to the rights related to author's rights:

- The rights of a performer to his artistic performance;*
- The right of a producer of a phonogram to his phonogram;*
- The right of a producer of an audiovisual fixation to his fixation;*
- The right of a radio or television broadcaster to his broadcast;*
- The rights enjoyed, in respect of a previously unpublished work, by the person who, after the expiry of copyright protection, for the first time lawfully made the work public;*
- The right of a publisher to remuneration in connection with the making for personal use of a copy of the work published by him;*
- The rights of a database maker to his database.*

Most of these rights can be transformed into digital format and made available to public, and distributed on-line. The exhaustion of digitalized

author's works mainly concern e-books, music and film downloads, photographs and software. Under the general concept of Czech author's law, the author has the right to use his work in its initial form or in a form adapted by another person. Third parties may use the author's work only with the author's permission (safe legal exceptions, which are out of the scope of this paper). The forms of use are provided for in the author's law by way of example, these are mainly:

- reproduce a work,
- distribute an original or a copy of the work,
- rent an original or a copy of the work,
- lend an original or a copy of the work,
- exhibit an original or a copy of the work,
- communicate the work to the public."

The exhaustion applies only to distribution of the original of the author's work or its copy. The distribution according to Article 14 para 1 of the Author's Act means:

*"The distribution of the original or copies of a work shall mean making the work available **in a tangible form** by sale or other transfer of ownership of an original or to a copy of the work, including their offer for such purposes."*

The exhaustion of the author's distribution rights is outlined in Article 14 para 2 of the Author's Act as follows:

*"The author's distribution right, in the territory of a member state of the European Communities or any other Party to the Agreement on the European Economic Area, to the original or copy of a work, is exhausted by the first sale or any other first transfer of ownership to such an original or a copy of a work **in a tangible form**, that was performed by the author or with the author's consent in the territory of a member state of the European Communities or any other Party to the Agreement on the European Economic Area; rental right to the work and lending right to the work shall remain unaffected¹."*

The Czech Author's Act differentiates between the tangible and intangible form of author's works. Under the Czech law, the author's works in their intangible form are being "communicated" to public, rather than distributed.

The communication of a work to the public under Article 18 of the Author's Act shall mean making the work available in an **intangible**

¹ This provision is in line with the principle outlined by the ECJ in the case Warner Brothers Inc. and Metronome Video Aps v. Erik Viuff Christiansen C-158/86 and also Directive 2001/29/ES. This means that purchasing an original or copy of author's work in a tangible form does not allow the purchaser to use the author's work by way of its rental or lending to third parties.

form, live or from a recording, by wire or wireless means. It shall also mean making the work available in such a way that members of the public may access it from a place and at a time individually chosen by them, **especially by using a computer network or similar network**. For avoidance of doubt, the communication of the work to the public shall not mean the mere operation of a facility enabling or ensuring such communication. As regards exhaustion of author's rights, the Czech Author's Act expressly provides in Article 18 para 4 that by communication of the work to the public the author's right shall not be exhausted.

The question arises, whether the communication of author's work to the public in its intangible form, i.e. giving access to the public to ones works by wire, or wireless means or by using computer or similar network, also covers situations where the end user downloads the work in its digital form onto its own computer or similar device (tablet, telephone, MP3 player).

Unlike in the event of broadcasting the work, certain sharing of digital works requires the end user to download the digital file, i.e. make his own copy of the work on his device. On one hand, a TV broadcaster can make some of its programs available on-line for viewing via internet access (usually for free). On the other, a music publisher or software house can provide music files or software to the end user by way of authorized downloads into the end user's device. The latter is a growing business, where the end user pays for downloading the copyrighted music, films, games, software, e-books etc. Economically, the latter is certainly closer to the sale of author's works on CDs, DVDs, or in a printed form, where the end user obtains ownership to a tangible carrier of the author's work.

The end user paid the rights owner for the possibility to have at his disposal a copy of an author's work. It can be anticipated that the owner of the digital copy, likewise the owner of the tangible copy of the works would like to dispose of it in a similar manner, for example be able to re-sell it, or give it to somebody else. Certain providers of digital content provide technically a function that enables the end user to "give" an e-book to somebody else, but that does not solve a legal situation where a third party would like to base its business on such works, and purchase and re-sell such digital works (save that the original copy of the end user would be deleted).

The new Czech Civil Code effective as of 1 January 2014 (Act no. 89/2012 Coll.) expressly provides for tangible and intangible things in legal sense, i.e. the ownership can be transferred not only to tangible works, but also to works in their intangible form. Thus the Civil Code does not exclude in principal that the author's rights be exhausted to digital works sold over internet by allowing the end user to download them to the end user's device. However, as long as the Article 14 para 2 of the Author's Act expressly provides only for exhaustion of rights

vested in works expressed in a tangible form, the exhaustion of rights in digital works remains only a theoretical matter.

2. THE TRADEMARK ACT

Under Section 11 of the Czech Trademark Act No. 441/2003 Coll. the proprietor of a trademark is not entitled to prohibit its use in relation to goods, which have been put on the market in the Czech Republic, in a member state of the European Communities or in another member state of the European Economic Area under that trademark by the proprietor or with his consent, except where the proprietor of the trademark has legitimate reasons to prohibit further commercial dealings in the goods, in particular where the condition of the goods has been changed or impaired after they have been put on the market. The Trademark Act does not distinguish between tangible and intangible goods. The goods means anything other than services. As already mentioned above, under the new Civil Code, things in legal sense can be both tangible and intangible. Also, software is traditionally classified in class 9, which under the Nice Agreement on international classification of goods and services, is a class reserved for goods, not services. This is one more reason to justify provision of intangible copyrighted contents as goods, subject to trademark exhaustion.

Traditionally Czech Republic and before Czechoslovakia applied the regime of worldwide exhaustion, the rights of the trademark owner were exhausted as soon as first placement of his goods with his consent took place. In connection with Czech Republic joining the European Communities² the new Trademark Act was adopted (no. 441/2003 Coll. effective as of 1 April 2004). Under the new Trademark Act the principle of regional exhaustion was introduced into the Czech legal system, in which the trademark owner's rights are exhausted by first placement of goods on the market within the territory of the member states of the European Economic Area.

3. EUROPEAN PERSPECTIVE

The legal framework for exhaustion of copyright was set out by the Directive 2001/29/EC on the harmonization of certain aspects of

² 1 May 2004

copyright and related rights in the information society (the “Information Society Directive”).

The aim of the Information Society Directive was to foster the development of the information society in Europe, foster unified internal market within the Community and increased competitiveness of European industry, both in the area of content provision and information technology. It acknowledges that technological development has multiplied and diversified the vectors for creation, production and exploitation and that the law on copyright and related rights needed to be adopted and supplemented to respond adequately to economic realities such as new forms of exploitation. It also acknowledges that a fair balance of rights and interests between the different categories of rightholders, as well as between the different categories of rightholders and users of protected subject-matter must be safeguarded. And the existing exceptions and limitations to the rights as set out by the Member States have to be reassessed in the light of the new electronic environment.

The preamble of the Information Society Directive in paras 28 and 29 sets out the principles of exhaustion in copyrighted matter. Under para 28 of the preamble, the copyright protection shall include the exclusive right to control distribution of the work incorporated in a **tangible article**. The first sale in the Community of the original of a work or copies thereof by the rightholder or with his consent exhausts the right to control resale of that object in the Community. This right should not be exhausted in respect of the original or of copies thereof sold by the rightholder or with his consent outside the Community. Para 29 of the preamble expressly says that exhaustion does not arise in case of services and on-line services, and that this also applies with regard to a material copy of a work or other subject-matter made by a user of such a service with the consent of the rightholder. The Directive also says that unlike CD-ROM or CD-I, where the intellectual property is incorporated in a material medium, namely an item of goods, every on-line service is in fact an act which should be subject to authorization where the copyright or related right so provides.

This claim is made in the context of the Directive setting the framework for protection of acts of on-demand transmission of copyright works and subject-matter protected by related rights over networks. As according to para 25 of the Directive all rightholders recognized by the Directive should have an exclusive right to make available to the public copyright works or any other subject-matter by way of interactive on-demand transmissions. Such interactive on-demand transmissions are characterized by the fact that members of the public may access them from a place and at a time individually chosen by them.

In para 26 of the preamble the Directive uses the term “on-demand services” when speaking of radio and television broadcasters. The question arises then, does the Directive intend to view transmission of on-demand contents by wire or wireless means, including the

transmission via internet as a service, if so, does the limitation of para 29, which says that the exhaustion does not apply in the case of services and on-line services, apply also to making access to digital contents to copyrighter works to end consumers via internet?

Article 3 of the Directive says that exhaustion shall not apply to author's rights and related rights in case of copyrighted works communicated to the public by wire or wireless means, including 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.

On the other hand Article 4 of the Directive speaks of exhaustion in respect of the original works and copies thereof, where the first sale or other transfer of ownership in the Community of that **object** is made by the rightholder or with his consent.

The English version of the Directive in Article 4 uses the term "object", the Czech version also uses the corresponding term to the English object. Both terms refer to tangible, material subject matter. Czech Author's Act speaks of original or copy of author's work in its tangible form. This means that the Czech Author's Act is compliant in this point with the Information Society Directive.

As regards the Directive 2009/24/EC on the legal protection of computer programs of 23 April 2009 (the "Software Directive"), this Directive in Article 4 para 2 provides for exhaustion of the distribution right within the Community of a copy of a program by its rightholder, after its first sale in the Community (with the exception to the right to further control the lending and rental of the program or copy thereof). The Software Directive unlike the Information Society Directive does not require in order to be exhaustion of rights that the first sale occurs vis a vis a tangible article, an object, it rather refers only to the copy of a computer program. A copy is a reproduction of the digital contents, which need not necessarily be saved on a tangible drive, but can be downloaded via internet directly from the rightholder³. This means that the Software directive provides for broader exhaustion of rights than the Information Society Directive. As it represents *lex specialis* in respect of the Software Directive⁴ it does not apply to any other digitally transmitted works other than the software. Czech Author's Act does not provide for any specific exhaustion in relation to software in terms of Article 4 para 2 of the Software Directive.

The CJEU in the case of UsedSoft GmbH v. Oracle International Corp. C-128/11 of 3 July 2012 has been widely commented on by Czech IT media. So far there has been no court decision that would deal with the exhaustion of the author's rights as a result of first sale of intangible digital copy of author's work on-line. The proposal for amendment of the Czech Author's Act that is currently pending at the Czech Parliament

³ This interpretation has been confirmed by the CJEU in the case UsedSoft GmbH v. Oracle International Corp. C-128/11 of 3 July 2012 – para 55, 59.

⁴ Para 20 of the Information Society Directive preamble; confirmed by CJEU in case C-128/11 in para 56

does not deal with the issue of broader exhaustion of the rights vested in computer program either.