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– Question B -

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

International Report

Avv. Prof. Vincenzo Franceschelli
Università degli Studi di Milano-Bicocca

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Abstract

1. Foreword, introduction and acknowledgements

1.1. Foreword

The legitimate holder of an industrial property right loses his absolute right with the first sale (principle of exhaustion of IP rights). The first sale made by the holder of an industrial property right, or by a legitimate licensee, has as a consequence that that good may freely circulate, and the legitimate IP holder may not oppose the successive acts of reselling.

Recent decisions in Europe and in the United States (in Europe EU Court of Justice C-128/11 of July 3 2012 - the Oracle Case; in US Supreme Court n. 11-697 of March 19, 2013 and US Supreme Court n. 11-796 of May 13, 2013) have brought the principle of exhaustion of IP rights in cyberspace to new attention.

The scope of this Report is to compare national laws in relation to the application of the principle of exhaustion of IP rights “as we know it” to the on-line industry.

1.2. Introduction

Industrial property rights are absolute rights. The legitimate holder of an IP right is entitled to the exclusive use thereof. The legitimate holder is also entitled to prevent all third parties from using his IP rights in the course of trade unless his consent is granted.

But IP rights are based on the principle of territoriality. Each State grants its own IP titles, that are effective within the territory of the State.

The use (or, if you wish, the abuse) of IP rights to prevent the import of “original” goods gave rise, in the course of time, to the “principle of exhaustion” of IP rights (referred to as first-sale doctrine in the United States).

Up to now, the principle of exhaustion has been applied, in each State, to material goods without particular problems. But on-line industry has been booming over recent years. And the trade of immaterial goods (software, e-books, music, film, photo, tickets, services) has constantly increased. The internet has no frontiers, and the digital platform is accessible everywhere.

This Report aims to examine and compare the reaction of national laws to the problem determined by the application of consolidated rules to the new phenomenon, in order to identify problems and suggest solutions.

1.3. Acknowledgements

I wish to thank firstly the *National Rapporteurs* for their important work. Thanks to their efforts and studies, it was possible, as in the LIDC tradition – to assemble an overview that covers the most relevant juridical systems.

Different views of the problem: one problem for us all.

A problem that we will try to approach together today.

Let me therefore thank personally, those I will mention in the order of presentation of the National Reports:

1 Francesca La Rocca Italy

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4 Adrien Alberini Switzerland

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5 Jan Clinck Belgium

May 15 2014

6 Thomas Hoeren Germany

May 20 2014

7 Mary-Claude MITCHELL**Jean-Louis FOURGOUX****Rachel NAKACHE****Tiphaine DELANNOY** France

June 9, 2014

8 Dr. Max W. Mosing Austria

June 17, 2014

9 Dr. Zsófia Lendvai Hungary

Friday, July 04, 2014

10 Avv. Karin Pomaizlova Czech Republic

Thursday, July 17, 2014

11 Bill Batchelor**Luca Montani** United Kingdom

Wednesday, August 6, 2014

12 Harumi KOJO Japan

Tuesday August 26, 2014

1.4. Notice

This International Report was prepared on the basis of the National Reports that were submitted in due time. I tried to avoid references to other material, cases or literature. I have avoided burdensome footnotes. Literature and cases may be found quoted directly in the National Reports. In some cases, data and references were transplanted directly and verbatim from the National Reports into this International Report

2. Background

Question B has various ante facts, that we have to take into consideration before examining the principle of exhaustion of IP rights in the on-line industry.

2.1. The extraordinary diffusion of the Internet

In recent years, the internet - a global system of interconnected computer networks - had an extraordinary diffusion. Millions of people all over the world exchange ideas, opinions, - and merchandise- through the internet. In many countries the access to the internet has become a constitutional right.

2.2. The internet as the flywheel of e-commerce

The internet is not only an instrument for exchanging information, where freedom of speech, pluralism, culture, privacy are involved.

Cyberspace –based on the digital platform - is a new market, dominated by new and constantly evolving technologies. It has become the flywheel of e-commerce.

2.3. Dematerialization and entertainment industries

In recent years, the convergence and the expansion of digital platforms has increased the dematerialization of goods. Many products are now present in the market in two forms: a traditional material form, and a dematerialized form, based on bit and bytes. And there is an increasing demand of goods that are present in the market only in a dematerialized form.

In this evolving picture, the entertainment industry is becoming day by day more important and relevant from an economic standpoint.

2.4. Dematerialization of distribution channels

Dematerialized goods spread through dematerialized channels.

The expansion of digital platforms led to a competition between distribution channels for material and immaterial goods.

2.5. The increasing importance of IP

In the eighteenth century wealth rested in land and agriculture

In the nineteenth century richness was based on the “brick and mortar” industry.

Nowadays wealth is more and more based on IP. Industrial property rights are becoming more and more important - and legitimate holders of IP rights are more aggressive in defending their rights.

2.6. The increasing importance of Copyright

For more than one hundred years, copyright - *droits d'auteur*, as we prefer to say in continental Europe – was associated with art, and the protection of the artist – no matter whether they were writers, musicians, painters or executer. The Berne Convention (AD 1886) was devoted to the protection of “Literary and artistic works”.

Then something happened ... when software was considered to be protected under copyright.

3. The exhaustion principle: from parallel import to exhaustion.

3.1. The exhaustion principle as we know it

We could begin our quest by saying that the exhaustion of industrial property rights has a peculiarity: in its present structure, it owes its origins to the European community law, and from EC Law, it has spread to the national laws of the member States, and has thus reached the juridical system of third countries.

But this is not all. The exhaustion principle opposes, and tempers, the traditional absolute nature of industrial property rights.

As we know, IP rights are based on four pillars – trademark, patent, copyright and design – erected on the common stream of competition law.

According to classical principles, IP rights are absolute, and have a territorial nature.

Before the creation of a Common Market in Europe, an enterprise could use their national trademarks to oppose and stop the so called “parallel imports”, by basing their legitimate claims on their national titles,

A practice – an abuse, from the stand point of the political forces that worked for the creation of a common market – that the young community law wanted to oppose.

3.2. The exhaustion in the Case Law of the Court of Justice.

From these premises, the origin of the theory of IP exhaustion, that was elaborated by the Court of Justice, in an array of decisions that, starting from the sixties, year after year, defined the principle.

The evolution of the case law is well known. The Grunding Costen case (1966), the Parke Davis case (1968) the Sirena case (1971) the Hag cases, and so on, in a “crescendo rossiniano”, up to the Deutsche Grammaphon case (1971) (Court of Justice, 8 June 1971 case C-78/70) ⁽¹⁾, which is considered, by many, as a leading case, and a turning point.

And then, new cases refined the concept of exhaustion as a legal institution.

3.3. Parallel import.

Our topic – of course – is not new. Before even discussing exhaustion theory, jurists and national Courts long discussed if an agent with exclusive rights could, on the basis of its industrial property titles, stop the import of original products from a foreign country. This is what it usually happened. A foreign producer appoints an agent with the objective of expanding a national market, and strengthens his position in that national market by granting an exclusive trademark license.

A resourceful and ingenious competitor buys original products abroad, usually at a lower price, and “forces his way”, becoming a competitor of the licensee. The licensee tries to stop the import of the “original products” in what he considers to be his own exclusive market.

It is the issue of “parallel import in an exclusive zone”, that, in years, has caused an impressive bibliography and a large number of cases.

¹ See Robert PLAISANT, *Une jurisprudence prétorienne. La Court de Justice Européenne et la territorialité des droit de propriété intellectuelle*, in Volume celebrativo del XXV anno della Rivista di Diritto Industriale, Milano, Giuffrè, 1977, pag. 873.

3.4. The EU theory of exhaustion.

The principle of exhaustion of IP rights as designed by EU Law, and as we know it, is as follows. The holder of an IP right loses his absolute right with the first sale in the EU territory. In other words, the first commercialization of a good in a territory of the European Union – or in the European Economic Area EEA ⁽²⁾- made by the holder of an industrial property right, or by a legitimate licensee, has as a consequence that that good may freely circulate in Europe, and the legitimate IP holder may not oppose the successive acts of reselling ⁽³⁾.

Using the wording of the Centrafarm Case:

“It cannot be reconciled with the principles of free movement of goods under the provisions of the Treaty of Rome if a patentee exercises his rights under the legal provisions of one Member State to prevent marketing of a patented product in said State when the patented product has been brought into circulation in another Member State by the patentee or with his consent” (verbatim Centrafarm B.V. and Adriaan de Peijper v. Sterling Drug Inc., in 6 IIC 102 (1975).

Again, this is a good example of the function of the law as a system to solve conflicts: on one side the traditional principle of territoriality of IP rights; on the other side the aspiration to a common market in favor of international trade ⁽⁴⁾.

The aim of the exhaustion theory is to strike a balance between the free movement of goods on the one hand, and the proprietor’s exercise of exclusive intellectual property rights to distribute his goods on the other hand. The holder of an IP right holds therefore the right to choose where, under which conditions and at which price his goods are put on the market for the first time. No need to say that international exhaustion allows parallel imports.

The theory of exhaustion obviously improved in the course of time. In order to be applicable, various conditions have to be met. It requires the consent of the legitimate holder (consent that may be express or implied). And it also requires – if we may say - that the legitimate holder receives, with the first sale, a “reasonable” (or if you prefer, “appropriate”) remuneration.

Depending on the jurisdiction concerned, one often distinguishes between national exhaustion and international exhaustion. In the European Union the term “regional exhaustion” is frequently used. Regional exhaustion, in the EU member States, means that IP rights are considered exhausted for the territory of the EEA when the product has been put on the market in any of the EEA Member States.

² To simplify things, in this report EU territory is considered equivalent to the European Economic Area EEA.

³ The reluctance for clauses that limit the movement of goods after a sale is a general principle of law in Civil Law countries.

⁴ The French Report refer to the exhaustion of rights as a balance between free movement of goods (for which the Court of Justice of the European Union guarantees respect) and the monopoly of exploitation granted to the holder of an intellectual property right.

4. The principle of exhaustion in the EU member States and outside the European Union.

4.1. The principle of exhaustion in the national law of the EU member States.

The National Reports confirm that the principle of exhaustion is present in the legal system of various EU member States.

In Italy the principle of exhaustion is expressly enshrined in trademarks, patents and designs (Article 5 of the Italian Intellectual Property Code); it is present in the Copyright Law (articles 16.2 and 17 of the Italian Copyright Law, respectively on the economic rights of communication to the public and distribution).

In Bulgaria the approach undertaken by the legislators regarding IP rights is that each type of IP rights is regulated in a separate statutory act. Therefore, there is no single definition of exhaustion of IP rights and depending on the type of IP rights the rules of exhaustion may vary. All of the Bulgarian statutory acts on industrial property provide for exhaustion of the respective rights as a consequence of the first placement on the market of the goods in question. Relevant rules are contained in the legislation on trademarks - Art. 15 of the Law on Marks and Geographical Indications -, industrial designs - Art. 21 of the Law on Industrial Designs -, patent and utility models - Art. 20a of the Law on Patents and Registration of Utility Models -, as well as on the topographies of integrated circuits - Art. 18 of the Law on the Topographies of Integrated Circuits - .

In Belgium the principle of exhaustion is enshrined in article 1, §1, par. 6 of the Belgian Copyright Act (which implements article 4(2) InfoSoc Directive).

In Germany the principle of exhaustion of IP Rights is either particularly stated or at least recognized as a leading principle; in this regard the sections 17(2), 69c(3) second sentence of the Copyright Act , section 24 Trademark Act , section 48 Design Patent Act shall be mentioned. In contrast the German Patent law lacks an explicit legal basis for the principle of exhaustion; however its existence is not questioned. The German Supreme Court (BGH) has repeatedly acknowledged the exhaustion principle as a precautionary principle for the entire IP law.

In France, the rule of exhaustion of rights, enshrined in different Community Directives, and clarified through the case law of the Court of Justice, was integrated within its legislation, by providing a specific provision for each intellectual property right (copyrights and related rights, trademarks, drawings and designs, patents, databases, software), in the course of the transposition of related Directives.

In Austria, Section 16 Austrian Copyright Act provides that the author of a work has the exclusive right to the first distribution of (copies of) his work; Section 10b Austrian Trade Mark Act states that the trade mark right shall not entitle the proprietor to prohibit a third party from using the trade mark in relation to (the concrete) goods which have been put on the market within the EEA under that trade mark by the proprietor or with his consent; Section 5a Austrian Design Act states that the rights granted by a registered Austrian design shall not extend to acts concerning a product when the product is put on the market within the EEA by the right holder or with his consent. No express rule exists for patent. It remains therefore unclear if a “general principle of exhaustion of IP rights” exists in Austria, that is going beyond the above reported exhaustion.

In Hungary, the rule of exhaustion of rights is present in various statutes: Section 23 (5) of the Act No. LXXVI of 1999 on Copyright (Copyright Act); Section 16 (1) of Trademark Act; Article 20 of the Act XXXIII of 1995 on the protection of inventions by patents (Patent Act); Section 18 of Act No. XLVIII of 2001 on the Legal Protection of Designs (Design Act).

In the Czech Republic the exhaustion of the author's distribution rights is outlined in Article 14 paragraph 2 of the Author's Act; for trademarks, Section 11 of the Czech Trademark Act No. 441/2003 Coll. provides that 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. It must also be noted that the new Czech Civil Code effective as of 1 January 2014 (Act no. 89/2012 Coll.) expressly extends to tangible and intangible things in legal sense, i.e. not only the ownership of tangible works can be transferred, but also the ownership of works in their intangible form. Thus the Civil Code does not exclude in principle that the author's rights on digital works are exhausted when the works are sold over the Internet. As a consequence the end user is allowed to download them onto 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.

In United Kingdom – although the exhaustion principle of intellectual property rights was not historically part of the English legal tradition – the exhaustion principle is now incorporated into English law in accordance with the EU legislation and case law.

In Spain – even if we don't have a Spanish national report we cannot forget our Spanish friend – the principle of exhaustion appears to be well known and applied.

4.2. The principle of exhaustion in the case law of the EU member States.

The National Reports confirm that the principle of exhaustion as designed by the EU case law is widely applied by the national Courts of the EU member States.

Italian case law unanimously recognizes the community exhaustion of rights, denying the international exhaustion (see for example, among others, Supreme Court (Corte di Cassazione) 18 November 1998, n. 11603; Court of Milan, 23 November 1998)

In Bulgaria, although there is a very limited practice in cases related to exhaustion, a relevant decision was taken by the Supreme Court of Cassation (Interpretive Decision No. 1/2009; "interpretive decisions" are binding upon the lower instance courts, as well as the panels of the Supreme Court of Cassation) that expressly examined the principle of exhaustion of trademark rights under Art. 15 of the Law on Marks and Geographical Indications (LMGI). In its decision, the SCC ruled that the principle of exhaustion of rights applies and has relevance with respect to genuine goods only.

In Germany, the German Supreme Court (BGH) has repeatedly acknowledged the exhaustion principle as a precautionary principle for the entire IP law: see for example BGH, 22 January 1964, Maja Case; *BGH*, 10 April 1997, Sermion II Case; .

In France a large number of decisions were reported to deal with the exhaustion principle: see Commercial Chamber of the Court of Cassation, 9 April 2002 n° 99/15428, Cass. Com., 20 February 2007, n° 05/11088; Cass. Com., 26 February 2008, n° 05/19087; Cass. Com., 7 April 2009, n° 08/13378; CA Paris, 15 June 2011, n° 2009/12305.,

In Austria the principle of exhaustion within the EEA was applied even before it was explicitly mentioned in the Austrian Trade Mark Act: see Austrian Supreme Court October 15, 1996;

In Hungary the following case may be mentioned: Metropolitan Appellate Court case Nr 8.Pf.20.989/212 (Unilever vs. V-Contact case)

In England various cases referred to the EU Court must be mentioned (*Levi Strauss & Co v Tesco Stores Ltd* (2002) EWCH 1556 Ch, *Zino Davidoff SA v A&G Imports Limited* (2002) Ch 109).

4.3. A first conclusion: the principle of exhaustion as a general principle of EU industrial property laws.

In conclusion, it is reasonable to state that the principle of exhaustion is a general principle of EU community law (... for material goods ...), and with various nuances, a general principle of the national law of the European member States.

At present, the general principle is applied to material goods, and with reference to trademark and patents. In some cases, and with some exceptions, it is extended to copyright.

4.4. The community “non-exhaustion” principle.

Born in the territory of the European Union, and created to favor and defend the creation of a common market, the principle of exhaustion – at the moment – is not applied if the first sale is made by the legitimate holder outside the territory of the Union. Indeed, no “extracomunitary exhaustion”, or, if you prefer, no “international exhaustion” currently exists.

4.5. The exhaustion principle in EU Law (regulations, directives and conventions).

Once that the principle of exhaustion was “elaborated” (or, if you prefer, established), the EU Law incorporated it in regulations, directives and conventions.

For example, art. 7 n. 1 of the First Council Directive of 21 December 1988 to approximate the laws of the Member States relating to trade marks (89/104/EEC) ⁽⁵⁾ states that “*The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent*”.

Art. 13 of the Council regulation (EC) n. 207/2009 of 26 February 2009 on the Community trade mark states that “*A Community trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent*” ⁽⁶⁾.

⁵ Article 7 - *Exhaustion of the rights conferred by a trade mark*

1. *The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent.*

2. *Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.*

⁶ Art. 13. *Exhaustion of the rights conferred by a Community trade mark*

1. *A Community trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent.*

The Information Society Directive (Directive 2001/29/EC) on the harmonization of certain aspects of copyright and related rights in the information society refers to this principle in paragraph 28 and 29. The Directive is a little old in relation to the high speed of technology, but is still there.

4.6. The exhaustion principle in international conventions with the purpose of favoring international trade.

The principle of exhaustion is mentioned in the TRIPS Agreement of 1994 and the WIPO Copyright Treaty (WCT) of 1996.

According to Article 6 of TRIPS, signatories are free to regulate the question of exhaustion. Article 6(2) of the WCT states that *“nothing 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.”*

As a matter of fact, for many scholars the free movement of goods is the main rationale justification for the principle of exhaustion. The principle of exhaustion is seen as a balance between the protection of international trade, and the protection of the rights if the IP right holder.

4.7. The exhaustion principle in copyright law.

As we have seen, the principle of exhaustion is theoretically accepted in copyright law – with some limits - as it is in other intellectual property laws notwithstanding the fact that the exhaustion of copyrights is neither mentioned in the Berne Convention of 1886, as amended in 1979, nor in the Rome Convention of 1961.

For example, in Austria -except for the right of distribution - other rights of exploitation based on the Austrian Copyright Act do not exhaust, even if the work has been put in circulation within the EEA. The Austrian Copyright Act explicitly states that the rental right is not subject to the exhaustion of rights. In Switzerland, although the Copyright Act contains an explicit provision on exhaustion, the author of a computer program keeps the exclusive rental right (Copyright Act, Article 10(3)). In Hungary, under the Copyright Act the right of distribution exhausts, but not the right of rental or lending. In the Czech Republic, the Czech Author's Act expressly provides in Article 18 paragraph 4 that by communication of the work to the public the author's right shall not be exhausted.

Generally, the principle of exhaustion is applied in copyright with reference to material goods.

4.8. The exhaustion principle in extra-community Countries.

Also in non EU countries, there is a “trend” to extension of the exhaustion principle of IP rights.

2. Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.

A) Statutes

In the Swiss Confederation, for example, the principle of exhaustion is well known, although it is treated differently according to the different intellectual property rights. The Copyright Act contains an explicit provision on exhaustion (Article 12.1). The Patent Act provides for a specific provision regarding exhaustion; the principle is that of regional exhaustion. (Patent Act, Article 9a.1).

In Brazil, the Brazilian Industrial Property law currently establishes a principle of national exhaustion of all IP rights. Basically, the holder of an IP right incorporated into a product cannot impede its use if the product was introduced in the national market by the holder himself or by someone authorized by him. Trademarks, patents and industrial designs are explicitly subject to national exhaustion rights, as per articles 132, III and 43, IV of the Brazilian Industrial Property Law (Federal Law No. 9,279/96), respectively.

in Japan the principle of patent exhaustion has long been recognized in practice and in academic theory.

With reference to Statutes, the Copyright Law of Japan has a specific provision which acknowledges exhaustion of distribution rights. Section 26-2, Subsection 2, paragraph 1 provides to the effect that once a tangible copy (i.e. a tangible media in which a copyrighted work is fixed) of a copyrighted work has been placed in commerce by a copyright owner or its licensee, the distribution right may not thereafter be enforced with respect to such tangible copy.

In the United States (where jurists are more pragmatic) a similar principle is known as the 'First Sale Doctrine'. Even though we do not have a "US Report", several national reports refer to the American experience. We may therefore report that the scope of application of the European notion of 'exhaustion' is not identical to the notion of 'first sale' in the United States. It must be noted that, traditionally, the first sale doctrine applies only to goods manufactured in the United States. But recent developments show openness for an "international exhaustion".

According to the American literature, the "first sale doctrine" goes back to late eighteenth century. A US Supreme Court decision of 1873 (U.S. Supreme Court decision, *Adams v. Burke* U.S. (17 Wall) 453 (1873) stated that "*in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use*". This case involved an attempt by the holder of a patent on a funeral casket lid to impose territorial restrictions on a purchaser's resale of caskets incorporating that lid. The Supreme Court held that the patent holder's control over the invention was exhausted with the first sale.

B) Case Law

With reference to case law, in Brazil the Superior Court of Justice - Special Appeals Nos. REsp 1207952 / AM and REsp 609047 / SP - has clearly stated that once authorized by the holder of the trademark, the entry of the original product on the national market cannot configure unlawful parallel imports.

In the Swiss Confederation, among various cases related to exhaustion, one case in particular addresses the issue of copyright exhaustion in the context of online distribution: on 4 May 2011, the Zug Cantonal Tribunal of 4 May 2011 – *Gebrauchtsoftware* - handed down a judgment pertaining to the exhaustion of the distribution right when the copy of a computer program is sold online. 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. The court also stated that it considers the rights to be exhausted in a software copy in general if there is no contractual obligation to return the software copy and the transferor does not retain any power over the particular software copy.

In Japan the principle of exhaustion has been defined by the judgment of the Supreme Court of Japan (Judgment of July 1, 2007, Case No. (o) 1988, 2005: “BBS case”) as follows: “When a patent owner or an entity licensed by the patent owner places a patented product in domestic commerce, the patent covering the patented product exhausts as having achieved its purpose, and it is no longer possible to enforce the patent against the acts of using, selling, leasing or otherwise disposing the patented product.”

In the United States recent cases - US Supreme Court n. 11-697 of March 19, 2013; US Supreme Court n. 11-796 of May 13, 2013; US District Court Southern District of New York Capitol Records LLC v. ReDigi Inc. of March 30, 2013 - have shown new insight about the principle of exhaustion of IP rights.

The Syllabus of the first decision stated that “*The “exclusive rights” that a copyright owner has “to distribute copies . . . of [a] copyrighted work,” 17 U. S. C. §106(3), are qualified by the application of several limitations set out in §§107 through 122, including the “first sale” doctrine, which provides that “the owner of a particular copy or phonorecord lawfully made under this title . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord”.*

The Syllabus of the second decision stated that “*Patent exhaustion does not permit a farmer to reproduce patented seeds through planting and harvesting without the patent holder’s permission. Under the patent exhaustion doctrine, the initial authorized sale terminates all patent rights to the patented item and confers on the purchaser, or any subsequent owner, the right to use or sell the thing, but the doctrine restricts the patentee’s rights only as to the “particular article” sold. It leaves untouched the patentee’s ability to prevent a buyer from making new copies”.*

5. The Oracle case

5.1. The Oracle case

This was, in a nutshell, the situation, when the European Court of Justice was called to decide the Oracle Case (EU Court of Justice C-128/11 of 3 July 2012, UsedSoft / Oracle). The case dealt with a computer program.

Oracle Corporation is a U.S computer technology corporation founded in 1977, headquartered in Silicon Valley. In other words, Oracle “produces” software.

UsedSoft is a German undertaking which markets licenses acquired from customers of Oracle. UsedSoft (*nomen [est] omen*) in other words, commercializes and sells “second hand” software,.

As we may read in the Court decision, Oracle develops and distributes, in particular by downloading from the internet, computer programs functioning as ‘client-server software’. The customer downloads a copy of the program directly onto his computer from Oracle’s website. The user’s right for such a program, which is granted by a license agreement, includes the right to store a copy of the program permanently on a server and to allow up to 25 users to access it by downloading it to the main memory of their work-station

computers. The licence agreement gives the customer a non-transferable user right for an unlimited period, exclusively for his internal business purposes. On the basis of a maintenance agreement, updated versions of the software (updates) and programs for correcting faults (patches) can also be downloaded from Oracle's website.

Oracle brought proceedings against UsedSoft before the German courts, seeking an order for it to cease those practices. The Bundesgerichtshof (Federal Court of Justice, Germany), which had to rule on the dispute as court of final instance, made a reference to the Court of Justice for it to interpret, in this context, the Directive on the legal protection of computer programs

5.2. The European Court decision

With the Oracle decision, the European Court stated that the principle of exhaustion of the distribution right applies not only where the copyright holder markets copies of his software on a material medium (CD-ROM or DVD) but also when he distributes them by means of downloads from his website.

The Court stated that *“An author of software cannot oppose the resale of his ‘used’ licences allowing the use of his programs downloaded from the internet. The exclusive right of distribution of a copy of a computer program covered by such a licence is exhausted on its first sale”*.

The Court leaves no room for doubt on this point. It found *“abundantly clear the intention of the European Union legislature to assimilate, for the purposes of the protection laid down by [the Software Directive], tangible and intangible copies of computer programs.”*⁷ In contrast with what one might think, according to the Court, such interpretation is not in contradiction with the InfoSoc Directive, as the Software Directive is a *lex specialis*.⁸

Nevertheless, the decision of the Court offers no argument to sustain that also services can ‘exhaust’. The right of distribution still *does not relate to contracts for services*.⁹

According to the Court, exhaustion thus only applies when a sale (or transfer of ownership) takes place. Without a sale, there is no exhaustion of the distribution right. Because a common definition of the notion of “sale” was lacking, the Court felt free to give a uniform and independent interpretation of this notion. According to the Court, *“a sale is an agreement by which a person, in return for payment, transfers to another person his rights of ownership in an item of tangible or intangible property belonging to him”*.

A ‘sale’ is thus an autonomous notion under the law of the European Union, which may include the distribution of a copy by download if (a) the rightholder receives a payment in compensation for the granting of an unlimited usage right, and (b) a transfer of ownership takes place. According to the Court, granting a licence for an unlimited period of time equals such a transfer of ownership. Whether the transfer takes place by means of a tangible or intangible medium is of no importance for the qualification and does not bear on the fact that there is a “transfer of ownership”. Nor does it make it a difference how such ‘transfer’ was qualified by the parties (as a ‘sales agreement’ or a ‘licence agreement’): the fact that *“the downloading of a copy of a computer program and the*

⁷ *UsedSoft*, pt. 58.

⁸ *UsedSoft*, pt. 56. This was later confirmed: ECJ, case C-355/12, *Nintendo Co. Ltd, Nintendo of America Inc., Nintendo of Europe GmbH v PC Box Srl and 9Net Srl*, pt. 23.

⁹ *UsedSoft*, pt. 66.

conclusion of a user licence agreement for that copy form an indivisible whole (...) makes it no difference whether the copy of the computer program was made available to the customer by the rightholder concerned by means of a download from the rightholder's website or by means of a material medium such as a CD-ROM or DVD. (...) Since an acquirer who downloads a copy of the program concerned by means of a material medium such as a CD-ROM or DVD and concludes a licence agreement for that copy receives the right to use the copy for an unlimited period in return for payment of a fee, it must be considered that those two operations likewise involve, in the case of the making available of a copy of the computer program concerned by means of a material medium such as a CD-ROM or DVD, the transfer of the right of ownership of that copy”.

5.3. The effects of the Oracle decision. The restrictive construal.

To say that the Oracle case raised some interest in the IP community and among the industrial property scholars is to underestimate the relevance and the effects of the decision.

The case disrupted traditional concepts, advanced the boundary of the exhaustion theory as known, and, of course, opened the door to a number of new and crucial problems.

What is new, in the Oracle case, is not that the exhaustion principle is applied to copyrighted work – this was known, and accepted from a theoretical standpoint – . What is new is that the principle of exhaustion is applied and applicable to an immaterial copyrighted work – a software program – where the “first sale” was made on the internet.

A first approach – shared by many – is to limit the effects of the decision, observing that the Oracle case deals with software programs. In deciding the case, the European Court explicitly decided that this interpretation is not in contradiction with the InfoSoc Directive, as the Software Directive is a *lex specialis*.¹⁰

In other words, the principle of exhaustion, born with reference to trademarks and patents, does not apply to intellectual property in general. It applies to software programs, and that is the end of it.

This may be true, but is not satisfactory. The case deserves some more reasoning and comments.

6. Beyond the Oracle case

6.1. The particular nature of the “exhausted” good and the increasing importance of electronic commerce.

What is really new – the novelty, in other words – is the nature of the “exhausted” good. It is useful to consider that the exhaustion theory originated and was developed with

¹⁰ *UsedSoft*, pt. 56.

The Software Directive is a *lex specialis* in relation to the EU Copyright Directive.

This was later confirmed: ECJ, case C-355/12, *Nintendo Co. Ltd, Nintendo of America Inc., Nintendo of Europe GmbH v PC Box Srl and 9Net Srl*, pt. 23.

reference to material goods. In relation to an industrial system that in traditional English is defined as “brick and mortar”⁽¹¹⁾.

The first critical point is therefore connected with the raising and the expansion – in the modern and contemporary world – of an “immaterial industry” that sells “immaterial goods”. An industry of immaterial goods that utilizes the digital platform as a distribution channel. In other words, side by side with the traditional distribution channel, a new model is expanding, based on digital technology.

E-commerce data are impressive. The Europe B2C Ecommerce Report 2013 reports that, in 2013, 250 million Europeans are e-shopper. Ecommerce Europe estimates the share of the European Internet economy at 3.5%.

But it is not only a question related to the internet connection and wide band. The goods themselves are dematerializing. Hence, not only software, but also books – e-books-music, film, photo, tickets, services.

6.2. Exhaustion and *corpus mysticum*.

In the material world, the exhaustion principle succeeded in adapting itself to the traditional principle of industrial property.

Let's consider the classical example of a printed volume. The author – and the editor – have absolute rights on the novel. The book is sold. The *corpus mechanicum* changes hand and owner. But the author – and the editor – do not lose the right to the *corpus mysticum*, that immaterial tie that link the author to his work. The author retains, according to general principles, the printing monopoly, and has the right to prevent any third party from printing or reproducing.

The *corpus mechanicum*, on the contrary, has an independent life. He who bought the book may, when he has finished reading it, resell it. And he who bought it “second hand”, is the new legitimate owner, and may do whatever he wants (but may not reprint it).

In a market analysis, we would say that this practice creates a “second market”.

But what happens if the good is “immaterial”?

The author – and the editor – instead of publishing the novel on paper, tailoring a nice hardcover volume, publishes it as an e-book, and sells it on line.

The buyer downloads it on his tablet and reads it. When he has finished reading it, may the buyer sell it? And – in the same way – may the author - or the editor - prohibit the second sale, or prevent that the second sale is consumed?

An intriguing question, we may say.

The Court of Justice, in the Oracle case, had to approach and answer this complicated question in relation to a software program; and had to face the problem taking in-to consideration the reality of the new distributions channels, as well as the particular perspective of the consumer.

The reasoning of the Court is logical, and, in a way, elegant. The legitimate buyer would stand in a different juridical position according to the type of sale: if he buys the software on a CD – as we have always done in the past – or if he downloads it directly. In the first case – applying the principle of exhaustion, he could sell the CD. In the second case he

¹¹ It appears that the expression “brick and mortar” goes back to Charles Dickens. It was first used in the book *Little Dorrit* (chapter 3).

could not ⁽¹²⁾. An unbearable discrimination. An unbearable contradiction within the politics of the “Digital Single Market”.

The Court furthermore considers, in particular, that *“limiting the application of the principle of the exhaustion of the distribution right solely to copies of computer programs that are sold on a material medium would allow the copyright holder to control the resale of copies downloaded from the internet and to demand further remuneration on the occasion of each new sale, even though the first sale of the copy had already enabled the rightholder to obtain appropriate remuneration. Such a restriction of the resale of copies of computer programs downloaded from the internet would go beyond what is necessary to safeguard the specific subject-matter of the intellectual property concerned”*.

6.3. Exhaustion: material goods and “dematerialized” goods.

The new principle – which is correct, in my opinion – nevertheless creates a second, and no less intriguing, problem. Because a “little” difference exists between the sale of a computer program on a tangible CD and the same sale through internet. And this “little difference” is caused by technological innovation, that allows the perfect reproduction of the digital good, so that you may no longer distinguish the “original” from the “copy”.

Let’s go back to our previous example: the hardcover book. If I sell the bound book, I do not have the book anymore (lapalissian truth). If I sell the e-book (an harmonic ensemble of bits and bytes) a copy (or an original?) may remain on my tablet.

The same happens – says the Court of Justice – if I sell a computer program: the software may remain on my hard disk.

In the Oracle case, the Court found an impeccable solution from a juridical standpoint. The “copy” on the hard disk must be deleted at the very moment it is sold.

In fact the Court states that *“an original acquirer of a tangible or intangible copy of a computer program for which the copyright holder’s right of distribution is exhausted must make the copy downloaded onto his own computer unusable at the time of resale. If he continued to use it, he would infringe the copyright holder’s exclusive right of reproduction of his computer program”*.

And adds: *“In contrast to the exclusive right of distribution, the exclusive right of reproduction is not exhausted by the first sale”*. In other words: if you keep a copy (or the “original”, if you prefer) onto your computer, you violate the right to the *corpus mysticum*.

6.4. Beyond the oracle. To delete the “original”.

Up to here, the “revolution” generated by the Oracle case.

But what are the future developments?

The first problem on which we may speculate is the order to “delete the original”. The Court observes – and I share the point – that in the digital world it makes no sense to distinguish between copies and original. All “copies” are original. The order to “delete the original” is therefore legally correct. But if it is correct from an abstract legal standpoint, it creates nevertheless practical problems. An obligation corresponds to a right. And a right

¹² The exemple is quoted in the German report: “Redeker - *Das Konzept der digitalen Erschöpfung – Urheberrecht für die digitale Welt*, in: CR 2014, 73 (76) - made up this very plausible example: He questioned why the owner of a regular book that he bought online should be able to sell it afterwards and why on the opposite the owner of an eBook with the same content should not have the right resell the eBook”

requires a legal instrument to control whether the obligation is fulfilled. How can the legitimate holder of the IP right verify the fulfillment of the obligation to delete?

Theoretically, there are two possible solutions. The first is to grant access to the hard disk of the seller (but this possibility collides with the right of privacy). The second – which sounds like science fiction – consists in developing selfdeleting mechanism, that will activate itself the very moment the software is moved from one hard disk to cyberspace (but what if it is the legitimate buyer that move the program from one computer to another?).

There is no point in taking a position on this issue. But the problem is there.

6.5. After Oracle. A French case.

It must be noted that a recent decision of the French Court of Cassation seems to expand the position of the Court of Justice in the Oracle case to the musical files distributed online. In this case (Cass. Civ 1st., 11 September 2013, n° 12/17794. The Oracle case is dated 3 July 2012). the company Apple iTunes was proposing phonograms accessible online by downloading via its iTunes website. The Spedidam (a French Collecting Society) reproached Apple for not having asked the prior authorization of the artists in order to exploit their performance by downloading, since they had authorized only the publication of their performance “*under phonogram form published in order to be sold*”. The first Civil Chamber, confirming the Court of Appeal decision, considered that the qualification of phonogram was independent from the existence of a material support and because of this, the authorisation given by the artists involved the making available by downloading.

6.6. After Oracle. Nintendo.

At the beginning of this year the Court of Justice had to deal with another case that could interest our quest: *Nintendo v. PC Box* decision of 23 January 2014 - Case C-355/12. The case deals with the concept of ‘technological measures’. The subject matter are videogames (and consoles) ⁽¹³⁾.

The European Court of Justice responded to a request from the Tribunale di Milano (“Milan Court of First Instance”) for a preliminary ruling on two questions regarding the scope of technological protection measures as articulated in Article 6 of Directive 2001/29/EC of the European Parliament (the “Copyright Directive”).

The Court fixed a few interesting principles.

First, it gave a definition of a videogame as a subject matter protected by copyright: *verbatim* “a videogame is ‘a complex matter which does not only contain a computer program but also graphic and sound elements, which, although encrypted in computer language, have a unique creative value which cannot be reduced to that encryption’.

Second, it fixed a balance with reference to technological protection measures stating that: the Copyright Directive “*must be interpreted as meaning that the concept of an ‘effective technological measure’, for the purposes of Article 6(3) of that directive, is capable of covering technological measures comprising, principally, equipping not only the housing system containing the protected work, such as the videogame, with a recognition device in order to protect it against acts not authorised by the holder of any copyright, but also*

¹³ See the Belgian Report, n. 3.3.1..

portable equipment or consoles intended to ensure access to those games and their use” ⁽¹⁴⁾.

Third, the Court made a distinction between computer programs and other works.

6.7. Towards a conclusion. Software is a subject matter protected by copyright ... or not?

The Oracle case opens new perspectives and topics that go beyond the decision as such. Even if we accept the “restrictive” interpretation of the decision, and we limit its effects to computer programs, it is legitimate to speculate on future developments.

Even if regulated in Europe by a *lex specialis* (the software Directive) software is a subject matter protected by copyright. A choice that many of us did not – in due time – share, but that is now an unquestionable legal reality. If this is so, we may speculate in general terms, and approach the topic of the exhaustion of copyright subject matter in the digital world. And consider the principle expressed in the Oracle case – the principle of exhaustion of an IP right with the first sale – as a general principle, applicable to industrial property rights and to intellectual property rights.

And therefore assume that the first sale of an intellectual work in the digital platform made by the legitimate holder of the intellectual property right – versus a “reasonable” remuneration” - determines that the digital good may freely circulate in Europe, without the right holder opposing the subsequent acts of resale.

A general principle that – according the various opinions – may be considered already present in community law – and this is my personal opinion –; or that should be left to the “wisdom” of the (national or community) legislator (as some time is done, when you do not know what to do).

¹⁴ And continued: “*It is for the national court to determine whether other measures or measures which are not installed in consoles could cause less interference with the activities of third parties or limitations to those activities, while still providing comparable protection of the rightholder’s rights. Accordingly, it is relevant to take account, inter alia, of the relative costs of different types of technological measures, of technological and practical aspects of their implementation, and of a comparison of the effectiveness of those different types of technological measures as regards the protection of the rightholder’s rights, that effectiveness however not having to be absolute. That court must also examine the purpose of devices, products or components, which are capable of circumventing those technological measures. In that regard, the evidence of use which third parties actually make of them will, in the light of the circumstances at issue, be particularly relevant. The national court may, in particular, examine how often those devices, products or components are in fact used in disregard of copyright and how often they are used for purposes which do not infringe copyright”.*

7. Law in the Cyberspace and the exhaustion principle

7.1. Going to the merits. Doing Business in the Cyberspace

But what has caused this earthquake in the tranquil land of industrial property? The Internet. The Internet has become the new means of communication. Convergence leads this process, impacting regulations, in particular privacy law, copyright law, and providers' liability.

But the Internet is at the base, the foundation of the digital platform, that is formed by the connection and the integration of previous separated platform.

The "market" – in economic sense – is now formed by the sum of what previously were separated platforms.

According to Eurostat, the official statistics board of the European Union, nearly 60% of EU internet users shop online. European E-commerce is booming. It has reached € 312 billion in 2012, with 19% growth

Eurostat reports that in 2012, 75% of the respondents between 16 and 74 in the EU28 stated that they had used internet in the past 12 months of which 60% indicated that they had shopped online in the same period. Among the Member States, the most enthusiastic online shoppers were the British (82% of the internet users had shopped online), followed by the Danes and Swedes (both 79%), the Germans (77%), the Luxembourgiens (73%) and the Fins (72%). The lowest rate of online shoppers were the Romanians (11%), Bulgarians (17%) and the Estonians and Italians (29%).

The main common goods shopped online in Europe are clothes and sports goods (32% in 2012 compared to 21 % in 2008). This was followed by books, magazines or e-learning materials (23% in 2012 compared to 19% in 2008). Groceries represented a smaller share (9% in 2012 compared to 6% in 2008).

7.2. "Traditional Industry" / "Online industry"

Notwithstanding the fact that e-commerce is booming everywhere, national legislation rarely regulates online industry in a different way than traditional industry.

With reference to our problem, we may classify industry in three classes or types.

Industry that operates only in traditional way, without any links with the cyberspace (the present equivalent of the classical "brick and mortar" industry of the past).

New industry that operates only on the digital platform.

But the majority of the industry is bivalent: it operates with the traditional distribution channels, but it is also present on the internet, and sells either through traditional distribution channels or through the internet.

From the standpoint of the goods and services sold or furnished, we may – again - classify goods and services in three types.

Goods that are traditionally produced and sold in a material form.

Goods that are produced and commercialized only in a digital form.

But an increasing number of goods is bivalent. And it may be produced and distributed in a material and in a digital form. Books / ebooks; music on CD and in digit; and we could continue: movies, plane tickets, photograph etc.

7.3. The increasing relevance of online industry: some data.

The increasing relevance of on line industry is a “constant” in the national reports.

In France nearly 34 million online users purchased on the Internet in 2013 and the e-commerce in France generated revenues amounting to more than 45 billion euros. Concerning m-commerce, 4,6 million French consumers purchased through their mobile or their digital tablet in 2012, thus developing mobile-payment (or “m-payment”), considered, by law, as a new instrument of payment. With reference to software, the sale of numeric files has widely exceeded the sale of physical support in the last few years.

In Austria eight out of ten Austrian households in 2013 were equipped with internet access (81%); in 80% of all households broadband connections were used, 59% used fixed broadband connections via a line (e.g. cable, fiber), 48% were mobile broadband over cellular network. In January 2013, 98% of Austrian companies had 10 or more employees with access to the Internet; 86% of all companies were present with a website on the Internet, although this depends on the company size as before. While almost all large enterprises (250 or more employees) have a web presence (98%), medium-sized companies (50-249 employees) are 94% and small enterprises (10-49 employees) are 84%. In Austria in 2011, according to OECD definition, 14,449 companies with 92,474 employees and annual revenue of EUR 25.7 billion were in the “online industry”: Despite the poor economy of the past few years, all these figures have increased since 2009.

In the Swiss Confederation, according to the Swiss Federal Statistical Office, the amount spent by Swiss consumers in relation to e-commerce in 2011 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. With respect to software, purchases have been largely replaced by downloads from the Internet.

7.4. The regulation of e-commerce

The “mother of all regulation” of e-commerce is the fifteen year old Electronic Commerce Directive (Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market ('Directive on electronic commerce')).

In Italy the Directive on electronic commerce has been implemented by the Legislative Decree 9 April 2003, n. 70.

Furthermore, the Directives 98/34CE and 98/48/EC were implemented with the Law n. 317 of 21 June 1986, on the procedure of information in the field of technical standards and the regulations and rules on information society services, as amended by Legislative Decree, 23 November 2000, n. 427.

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

In Belgium the E-Commerce Directive was implemented with the Act of 11 March 2003 concerning certain procedural aspects of information society.

In Germany, the German legal system does not explicitly refer to the term e-commerce. However, the German legislature did respond to the issues that arose in context with e-commerce. In particular, there was section 312e BGB (in the old version) introduced, which was then retained by section 312g BGB (in the new version). These sections ensure the implementation of articles 10 and 11 of the directive 2000/31/EC into German law. Therefore section 312g BGB applies when an entrepreneur uses tele- and media services in order to conclude a contract for the supply of goods or services. This section has the purpose of providing the indispensable minimum in terms of a fair contract handling. Instead of defining the term e-commerce in accordance with the definition in the directive 2000/31/EC as information society services, the German legislator preferred to introduce the term “tele- and media services” at first; meanwhile this term was replaced by the term “telemedia”.

In France the definition of e-commerce results from a transposition of the e-commerce Directive. E-commerce is defined as the economic activity by which an individual offers or provides goods and services at a distance, by means of electronic equipment. Some online activities, exercised for free, are also comprised within the e-commerce activity. This definition, which is, articulated around 3 criteria (activity, technology and finality) fits in the momentum towards an extensive definition of e-commerce. It allows the integration of new types of e-commerce as technology evolves.

In Austria, the E-Commerce Act implementing the European E-Commerce Directive applies to services that are rendered via electronic processing and storage systems. Furthermore, there are special provisions on distance selling contracts which are contained in Austrian Consumer Protection Acts.

One specificity of the Austrian E-Commerce Act is a strong focus on the “Country-of-Origin Principle”: It provides that in general the regulations apply where the service provider has its principal place of business. Consequently, a provider with a registered office in Austria must comply with the Austrian Trade Act and related regulations governing supply and distribution of goods and services. Once the Austrian requirements are met, however, the provider may – in general – also conduct its activities in other EU member states without additional requirements.

In Hungary, the E-Commerce Act introduced specific provisions related to the liability of the intermediary service providers, including the notice and take-down procedure applicable for content infringing IP rights. Furthermore, the “country of origin” principle implemented by the E-Commerce Act may also be regarded as a particularity of the regulation of e-commerce with regard to traditional industry. This is because the principle sets out that the provisions of the E-Commerce Act falling within the scope of the coordinated fields do not apply to those service providers providing services directed to the territory of Hungary who are established in another EEA Member State.

Brazil does not have a formal definition of e-commerce nor any legal attempts to define it. In case law, an explicit definition has not been attempted, yet, e-commerce is generally regarded as any transfer of property or rendering of services using the internet as a medium. The on-line industry is not defined by law nor is it regulated differently than traditional industry.

Japan does not have a definite or accepted definition of on-line industry. Japan has a “E-Commerce Law”: its main focus is on the contractual aspects of the transactions made via internet, such as formation of contract, effect and etc., and is not particularly relevant to IP rights. There are also several other laws which regulates internet commerce from the standpoint of consumer protection, but they too have little relevance to IP rights.

7.5. A sale in the Cyberspace

It is clear that, in applying the exhaustion principle, the determination of the place where the “first sale” is of paramount relevance.

But where is the place of the sale in cyberspace?

One Report suggested that the distinction between “active sale” and “passive sale” (given by Regulation No. 330/2010 - Block Exemption Regulation) could be useful. The Regulation distinguishes the ‘active’ sales from the ‘passive’ sale. The ‘active’ sale is defined as “actively approaching individual customers by for instance direct mail, including the sending of unsolicited e-mails, or visits; or actively approaching a specific customer group or customers in a specific territory through advertisement in media, on the internet or other promotions specifically targeted at that customer group or targeted at customers in that territory”. ‘Passive’ sales means “responding to unsolicited requests from individual customers including delivery of goods or services to such customers”.

7.6. The developing of a “Secondary market” for digital goods

The increasing trade on the digital platform has created a new phenomenon: a consistent “secondary market” for digital goods.

In France, for example, with regard to the new issues that the development of a secondary market of the digital cultural goods could represent, the French Ministry of Culture and Communication charged the Artistic and Literary Property High Council, in July 2013, to put in place a commission on the used digital market. This Commission has the mission to debate the question of the lawfulness of the “used digital cultural goods market” and of its economic impact on the primary market in order to ensure a fair compensation for the creators as much as an adequate level of financing of the creation.

Several scholars believe that the extension of the exhaustion principle to copyright is critical for the developing of a “Secondary market” for digital goods.

On the other hand, it is clear that a secondary market for digital goods competes directly with the primary market. There are no differences in cyberspace between the original and a “copy”.

7.7. No “Secondary market” for digital goods in US according to the District Court Southern District of New York. An no “first sale doctrine” in on-line sale.

It must be mentioned the case US District Court Southern District of New York, Capitol Records LLC v. ReDigi Inc. of March 30, 2013 (¹⁵).

Capitol Records, LLC is a major American record label.

ReDigi, Inc., operates a website offering users the ability to sell (and buy) at a discount legally acquired digital music files

In this decision, the Court decided that the “first sale doctrine” does not apply to on-line sale. It ruled that the transfer of digital data from one storage medium to another constituted a violation of copyright, because the copy was ultimately an unauthorized reproduction, and therefore outside of the protection of the first-sale doctrine.

¹⁵ It must be noted that in US law the decisions of a district court are not binding.

Therefore ReDigi was not authorized to allow listeners to use its platform to buy and sell "used" digital music tracks originally bought from Apple Inc's iTunes website. The decision was interpreted as a "blow" to create online marketplaces for used digital goods.

Verbatim, the Court ruled that "[W]hen a user downloads a digital music file or "digital sequence" to his "hard disk," the file is "reproduce[d]" on a new phonorecord within the meaning of the Copyright Act. *Id.*

This understanding is, of course, confirmed by the laws of physics. It is simply impossible that the same "material object" can be transferred over the Internet. Because the reproduction right is necessarily implicated when a copyrighted work is embodied in a new material object, and because digital music files must be embodied in a new material object following their transfer over the Internet, the Court determines that the embodiment of a digital music file on a new hard disk is a reproduction within the meaning of the Copyright Act. [...]

Simply put, it is the creation of a new material object and not an additional material object that defines the reproduction right. The dictionary defines "reproduction" to mean, inter alia, "to produce again" or "to cause to exist again or anew." See Merriam-Webster Collegiate Edition 994 (10th ed. 1998) (emphasis added). Significantly, it is not defined as "to produce again while the original exists." Thus, the right "to reproduce the copyrighted work in . . . phonorecords" is implicated whenever a sound recording is fixed in a new material object, regardless of whether the sound recording remains fixed in the original material object".

7.8. Future developments in exhaustion: cloud computing, streaming and other "modernity"

In Cyberspace facts and problems run faster than the law that tries to solve and regulate them. Streaming and cloud computing are good examples.

Streaming is the oldest of these "modernity". Streaming is a technique for transferring data so that it can be processed as a steady and continuous stream. If you watch a movie "in streaming", you do not download the entire movie. You watch the movie while it is performed. But where is the "first sale"? Does the showing of a copyrighted work – a movie, a song, an opera, a concert – in streaming "exhaust" the intellectual property right?

Cloud computing is even more complicated.

Informatics define Cloud computing as the delivery of computing as a service rather than a product, whereby shared resources, software, and information are provided to computers and other devices as a utility over a network (typically the Internet).

In a nutshell, when you work on a cloud, your file is not on the hard disk of your computer; your file is elsewhere, in the memory of a distant server, in a foreign country, that may even change as you work.

Some "games providers" already use this system: you do not download the master program of your game. In order to play, you need the Internet, you need to be "wired", and connect yourself.

Again: if the master program remains "in the cloud", and we are not downloading it, what may we consider as the "first sale"?

8. On-line infringement of intellectual property rights

8.1. On-line infringement of intellectual property rights: National answer on the merits

In general, the National Reports indicate that no States have a specific law or regulation that refers specifically to on line infringement.

On line infringement, in other words, is dealt with by national Courts as traditional IP infringement.

This does not mean that on line infringement does not create, in several cases, particular problems, especially in the execution of the decision.

8.2. National laws and on-line infringement

In particular:

The Italian law introduces no new criterion to determine the existence of an infringement of intellectual property rights in the online industry, therefore the general rules provided by the Intellectual Property Code shall apply. For on-line copyright infringements, AGCom (Autorità per le garanzie nelle comunicazioni) has recently adopted particular measures based on the principle of “cease and desist”.

In Brazil the concept of “on-line infringement” of an IP right does not essentially differ from a traditional infringement. Basically, the remedies available in case of an “on-line infringement” are the same remedies available as for traditional infringements.

The Bulgarian legislation does not differentiate between on-line infringement and traditional infringement of IP rights. Therefore, the same rules apply to IP rights infringement, irrespective of whether performed in the digital or traditional environment. Further, no difference may be established in the approach of the Bulgarian courts to infringements performed online and offline.

In the German legal system there is no differentiation between infringements on the regular market versus the online market.

In France, particular measures are in force for copyright. The High Authority promoting the distribution and protection of creative works on the Internet (“HADOPI”) ensures the protection of copyright on the electronic communication channels. It is particularly active to pursue illegal downloads of music and/or movies and condemn this practice through a “graduated response”.

In Austria the concept of “on-line infringement” of an IP right does not differ from a traditional infringement. Also from a pure procedural perspective, there is no difference between online- or offline-IP-infringements.

However, as tangible goods differ from intangible goods or services, the questions of infringement and remedies might differ, but that is not a difference in the concept as such. The approach that IP protection has generally a technologically neutral character leads to the consequence that everything that is considered to be an infringement offline is also considered as an infringement on the digital platform respectively “Digital Single Market” by the “on-line industry”.

In Hungary IP legislation does not differentiate between online and traditional infringement of IP rights.

Hungarian IP legislation provides the same remedies in case of online and traditional infringements for the IP right holders. The current forms of remedies available in IP proceedings have been established as a result of the implementation of Directive

2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights.

It should be noted that the E-Commerce Act regulates a remedy available for IP right holders only in case of online infringements. This is the so-called “notice and take-down” procedure.

Japan does not have a concept of “on-line infringement” as opposed to “traditional infringement”. Remedies available for a right holder against infringement are the same across various IP rights.

8.3. Enforcing a decision against a foreign infringer

As we have seen, on line infringement of intellectual property rights are dealt with by national Courts as traditional IP infringement. Once a decision is issued, problems may arise in order to enforce it, if the infringer is located in a foreign country. It is reasonable to say that the traditional problems connected with the enforcement of a decision abroad – always present in the practice of the law – are exalted in the Cyberworld.

For example, the Belgian report stress that the enforceability against an infringer who has his headquarters in a non-member state shall be more difficult and shall mainly depend upon the existence of an international treaty with the country in which the headquarters can be found. If no bilateral treaty exists, the rules of the Belgian code of international private law shall apply.

9. Summary and Conclusion

9.1. Summary

In preparing this International Report, the background of our subject were first outlined (Chapter 2). The origin of the exhaustion principle was then remembered (Chapter 3), summarizing the evolution of the concept from “parallel import” to exhaustion.

Afterwards the situation in the various juridical systems was outlined (Chapter 4).

The Oracle case was then analyzed, as a emblematic decision that may be considered as a turning point (Chapter 5).

The successive chapter (Chapter 6) deals with the juridical problems that were created by the Oracle case itself.

In the following chapter (Chapter 7) the theme was examined in the context of the cyberspace.

Finally, the problem of on-line infringements of intellectual property rights were examined (Chapter 8).

9.2. Conclusion

The research has shown that the time has come to adapt the principle of exhaustion of IP rights to the new technology. It has also confirmed that technology goes faster than law, so that when the law goes a step forward, a new problems arises. Streaming and cloud computing are a good examples.

The majority of the Reports acknowledge the problems, and underline various aspects.

The first is that principle of exhaustion of intellectual property rights was elaborated and developed in a time when goods and services were mainly material and sold and

distributed through material and traditional channels. This approach is overturned by the new technology.

The second is that it is no longer possible to distinguish, as far as the principle of exhaustion is concerned, but also in general, among industrial property and intellectual property. Copyright is expanding.

The third is that it is more and more difficult to separate and distinguish traditional industry and online industry as well as material and immaterial goods and services.

Other points could be pointed out.

The majority of the Reports are of the opinion that on-line infringement of intellectual property rights is normally dealt with the ordinary rules of civil procedure, and that there is no particular necessity of elaborating new ones. The difficulties of enforcing decisions abroad against foreign on line infringers in copyright cases are the usual ones, common in the legal praxis when a decision must be enforced against a foreign infringers.

10. Proposal(s)

As a conclusion of this comparative analysis, it is reasonable to say that the extension of the principle of exhaustion of IP rights to the on-line industry is a hot and controversial issue. With reference to copyright, the principle is commonly accepted if referred to material goods. Problems arise if the principle is applied to dematerialized goods. To the extent that the general principle of exhaustion of IP rights came in to discussion. Is it a general principle that it is applied to all IP rights, or should be limited to material goods?

It is consequential to formulate two alternative proposals:

1) We leave things as they are. The principle of exhaustion of IP rights (trademarks, patent, copyright, design) it is not a general principle that is applied to all IP rights. In the frame of the present legislation it applies to material goods. It also applies to software. There is no need, at a moment, for a substantial change in the legislation. An legislative intervention in premature. Therefore, the principle of exhaustion does not apply to the distribution of digital goods.

2) The principle of exhaustion of IP rights (trademarks, patent, copyright, design) is a general principle. At present, it applies to material goods, and to software.

The extension of the principle of exhaustion of IP rights to immaterial goods (such as, for example e-books, music, movies and other) distributed or sold on the digital platform is questionable and creates incertitude.

The overall goal of the principle of exhaustion must be examined.

Time are mature for a legislative intervention, that takes into account the increasing importance and diffusion of internet and, therefore, of e-commerce in new forms.

In particular, a legislative intervention should take position on the following specific issues:

Should there be an exhaustion only in case of a sale or also in case of a licence ?

Can a perpetual licence be assimilated to a non-perpetual licence?

What about multi-users licence?

The legislative intervention should also take position in relation of the new form of exploitation of immaterial goods, such as streaming and cloud computing, where a “sale” in traditional sense, is not clearly detectable and identifiable.