

Question Q240

National Group: Netherlands

Title: Exhaustion issues in copyright law

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Date: 4 April 2014

Questions

I. Current law and practice

The Groups are invited to answer the following questions under their national laws:

Right of distribution

- 1) Does the copyright law of your country recognise the right of distribution within the meaning of Article 6, paragraph (1) of WCT? If so, please cite the provisions which set forth the definition of the right of distribution and recognise such right.

Yes, Article 12 Dutch Copyright Act (“DCA”) (*Auteurswet*), which corresponds to article 4 of the Copyright Directive 2001/29/EEC (Infosoc). Furthermore, Article 2 (2), 7a (2) and 8 (2) of the Dutch Neighbouring Rights Act (“DNRA”) (*Wet op de naburige rechten*).

Exhaustion of copyright-protected works

- 2) Does the copyright law of your country recognise the exhaustion of copyright-protected works after the first sale of the work with the authorisation of the author? Is it recognised by statutory law or case law?

Yes, the exhaustion of copyright-protected works after the first sale with consent of the author is recognized both by Dutch statutory law as in Dutch case law (see below).

Statutory Law:

Article 12(b) DCA stipulates as follows:

“If by means of transfer of ownership, an original or copy of a literary, scientific or artistic work has been put into circulation for the first time by or with the consent of the maker or his successor in title in one of the Member States of the European Union or in a state that is party to the Agreement on the European Economic Area, then putting

that original or copy into circulation in any other way, except by rental and lending, does not infringe the copyright.”

In addition thereto, the exhaustion doctrine has been laid down in the following articles of the DNRA:

Article 2(2):

“Where a reproduction of a recording of a performance has been brought into circulation, by means of transfer of ownership, for the first time by or with the consent of the holder of the exclusive right referred to in paragraph 1, in a Member State of the European Union or in a State party to the Agreement on the European Economic Area of 2 May 1992, the acquirer of such reproduction does not infringe that exclusive right by carrying out, with respect thereto, the acts referred to in paragraph 1, sub (c), with the exception of rental and lending.”

Furthermore, Article 7(a)(1) grants the producer of the first print of a film the exclusive right to authorize the reproduction of such first print. Article 7(a)(2) subsequently stipulates as follows:

“Where a first print or a reproduction has been brought into circulation by means of transfer of ownership for the first time, by or with the consent of the holder of the exclusive right referred to in paragraph 1, in a Member State of the European Union or a State party to the Agreement on the European Economic Area of 2 May 1992, the acquirer of said first print or reproduction does not infringe that exclusive right by carrying out, with respect thereto, the acts referred to in paragraph 1 sub b, with the exception of rental and lending.”

Following Article 8(1) of the DNRA, similar exclusive rights are granted to broadcasting organizations in relation to their recorded programs. Also here Article 8(2) stipulates as follows:

“Where a recording of a programme or a reproduction thereof has been brought into circulation by means of transfer of ownership for the first time, by or with the consent of the holder of the exclusive right referred to in paragraph 1, in a Member state of the European Union or a State party to the Agreement on the European Economic Area of 2 May 1992, the acquirer of the recording or reproduction does not infringe that exclusive right by carrying out, with respect thereto, the acts referred to in paragraph 1(c) (bringing into circulation), with the exception of rental and lending.”

Case Law

There are a number of Dutch judgments in which the exhaustion doctrine has been recognized:

Dutch Supreme Court 19 January 1979, NJ 1979,412 (Poortvliet)

In this judgment the Dutch Supreme Court ruled that in certain circumstances, amending copies of original works can have the consequence that the copyright of the right owner is not exhausted:

In this matter a certain Mr Hovener acquired a number of calendars on which paintings of the well-known Dutch artist Rien Poortvliet were depicted. Mr Hovener amended the original reproductions in the sense that he carved them out and pasted them on chipboard, after which he sold these amended works to the public. Further to a claim of Poortvliet, the Court of Appeal in The Hague ruled that Hovener infringed upon the copyright of Poortvliet.

The Dutch Supreme Court agreed with the Hague Court of Appeal. The Supreme Court ruled that the exhaustion doctrine did not apply, since the market for sustainable reproductions differs from the market for calendars. In addition the Supreme Court held that Poortvliet only authorised his publisher to circulate calendars and not reproductions. By processing the calendars to reproductions, Hovener infringed upon the copyright of Poortvliet.

Dutch Supreme Court interim judgment 12 July 2013 (Allposters v. Pictoright)

In this pending matter, the Dutch Supreme Court has recently asked the ECJ a number of questions regarding the copyright exhaustion doctrine in relation to the interpretation of article 4 of the Copyright Directive.

In this matter the company Allposters marketed several reproductions (on a paper carrier) of famous painters such as Picasso, Matisse, Much, Chagall. For the purposes of the proceedings, it was assumed that these paper reproductions were sold and delivered within the European Economic Area by or with the consent of the right holder and that the copyrights in the paper reproductions were exhausted. The reproductions are being offered by Allposters, *inter alia*, on so-called “canvas transfers”, further to which the original reproduction (on the paper carrier) is processed through a chemical process in which the paper carrier is replaced by a canvas carrier without the actual reproduction being amended (the Dutch Supreme Court describes it as “a change in form”), which canvas is subsequently applied on a wooden frame.

The Dutch collecting society Pictoright, which acts for *inter alia* the afore mentioned right owners in relation to the copyrights vested in the original paintings, acted against these “canvas transfers” based on copyright infringement claim.

The Court of Appeal in Den Bosch ruled that Allposters infringed upon the copyrights of the right owners, since the “canvas transfers” constitute an amended version of the original reproduction, leading to a new form of exploitation, differing from the originally circulated copy of the reproduction, which means that the exhaustion doctrine does not apply.

In summary, the Dutch Supreme Court has now requested the CJEU to (1) clarify the scope of article 4 of the Copyright Directive, and (2) to clarify the level of freedom the national courts have in relation to the interpretation of the exhaustion doctrine as stipulated in article 4 of the Copyright Directive (e.g. such as the prior ruling of the Supreme Court in the Poortvliet matter, see above).

CJEU 3 July 2012, C-128/11 (UsedSoft v. Oracle)

For completeness sake, reference is made to this landmark judgment of the CJEU in the UsedSoft v Oracle matter. In this judgment, the CJEU in summary held 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, but also where he distributes them by means of downloads from his website.

3) How does your law treat exhaustion of copyright-protected works?

Specifically,

- a) Does exhaustion of rights occur for all kinds of works or is exhaustion limited to certain kinds of works?

Exhaustion of rights occurs for all kinds of works and Dutch law does not make any distinction. The DCA simply refers to ‘a *work of literature, science or art*’, thereby not excluding any specific categories.

The DNRA does make a distinction between several kinds of objects or acts:

- Article 2 (2):
 - this provision sees to the rights of performers in general
 - ‘*where a reproduction or a recording of a performance*’
- Article 7a (2):
 - this provision sees to the rights of film producers
 - ‘*a first print or a reproduction*’
- Article 8 (2):
 - this provision sees to the rights of broadcasting organisation
 - ‘*a recording of a program or a reproduction thereof*’

However, the exhaustion principle applies to each of these protected objects/acts across the board without any variation.

- b) Which right can be exhausted? Is it (a) the right of distribution, and/or (b) the right of reproduction, and/or (c) the right of lending and/or renting of copies?
- a) Yes, it is the distribution right that can be exhausted.
- b) No, the reproduction right cannot be exhausted.
- c) No, the right of lending and/or renting of copies cannot be exhausted. It should be noted that for the purpose of this provision the act of “lending” means lending by a public institution (“openbare instelling”), cf. Article 12(3) DCA.
- c) What are the requirements for exhaustion of rights to occur? What activities by right holders are required for exhaustion to apply? Are licencees/buyers required to take any positive steps for exhaustion to be applicable?
- Ad i) Both the DCA and the DNRA require that the right is only exhausted if by means of transfer of ownership, with consent of the right holder or his successor in title is required, the “work”¹ has been put into circulation for the first time in one of the Member States of the European Union or in a state that is party to the Agreement on the European Economic Area.

The DCA makes an exemption for rental and lending by public institutions, which does not lead to exhaustion of the copyrights.

Ad ii) A transfer of ownership is required.

Ad iii) From the UsedSoft decision we learned that at least for software there is a ‘forward and delete’ requirement.

¹ As defined by the specific provisions: ‘an original or copy of a literary, scientific or artistic work’, ‘a reproduction or a recording of a performance’, ‘a first print or a reproduction’, ‘a recording of a programme or a reproduction thereof’

- d) If the right holder A distributes lawful copies made by A to people including B, B purchases a copy from A and sells it to C, and thereafter A cancels the sales agreement between A and B because of non-payment of the price by B to A, may A assert his/her copyright against C? May C rely on exhaustion of A's rights to the work (or the right of distribution)? In this connection, which party (A or C) will keep the right of ownership in the tangible copy?

In the scenario described in the question, C may rely on exhaustion of A's rights to the work (and the right of distribution). C will keep the right of ownership in the tangible copy.

In the above scenario, A willfully transfers its property rights in the copy to B, which triggers the exhaustion of A's copyright in relation to that copy. Under Dutch law, non-payment of the price would give the seller cause to dissolve the sales agreement. Under Dutch law, dissolution of an agreement does not have any retroactive effect. Rather, the effect of dissolution is (*inter alia*) that both parties have an obligation to undo what they received under the agreement. Therefore, B has an obligation to transfer back to A the copy purchased. However, B cannot deliver this copy back to A since the copy is no longer the property of B (but the property of C). B is in breach of his obligation to undo what he received under the sales agreement and is liable for the damage as a result of this breach.

Please note that the above would be different if the sales agreement between A and B would be subject to annulment/nullification which does have retroactive effect, e.g. when the agreement had been entered into under the influence of threat, fraud, undue influence or error. In such cases, the willful transfer of property from A to B is deemed never to have happened at all and therefore A's copyright is not exhausted. A may reclaim the copy as his property since the copy was distributed in violation with A's exclusive distribution right (article 28a paragraph 1 DCA). On a similar note, if right holder A delivers copyright-protected copies to B under retention of title/reservation of ownership (e.g. until B pays the price in full), there is no transfer of property either. As a consequence, A's copyright will not be exhausted by the delivery of the copies from A to B.

- e) Are there any statutory exceptions to the exhaustion of rights, e.g. transformation of the work by the licensee/buyer prior to re-selling?

The only statutory exception to the exhaustion of rights is in Article 12b of the DCA for rental and lending.

In case law however, there are further exceptions. As discussed in question (2) above, the Dutch Supreme Court has held that amendments to the original copy which lead to a new product in the sense that it qualifies for sale in a "different market" (e.g. the market for calendars is a different market than the market for reproductions) lead to the conclusion that the "original copy" has not been circulated with the consent of the right owner and that therefore, in that case, no exhaustion of copyright occurs.

- f) May the exhaustion of rights be waived contractually?

We believe that under the laws of The Netherlands, the exhaustion rule is not a rule of imperative law. Seen in this light, in principle, it is possible to contractually waive the exhaustion of rights.

Nevertheless, an agreement between A and B comprising a waiver of exhaustion of rights would be prohibited if and to the extent that such agreement would have as

object or effect the prevention, restriction or distortion of competition within the internal market (article 101 TFEU) or within the Dutch market (article 6 Dutch Competition Act).

Be this as it all may be, if in an agreement between copyright holder A and buyer B the conditions for exhaustion of rights are met (*i.e.* there has been transfer of property with permission of the right holder in the European Union), and the agreement would not have as object or effect the prevention, restriction or distortion of competition, the agreement between A and B in which the exhaustion of A's rights is waived, may at most have a contractual effect between A and B. The agreement between A and B does, however, not affect the relation between A and C (or further proprietors of the copy). If the agreement between A and B is such that the conditions for exhaustion in article 12b DCA are met, third party C can still rely on exhaustion pursuant to article 12b DCA as a defence against any claim based on copyright infringement by A.

It should further be noted that from the *UsedSoft* judgment it follows that in the relation between A and C, C may even rely on the exhaustion rule in the situation which was matter of discussion in that case, even though the conditions for exhaustion in the agreement between A and B are not met (*i.e.* there has not been a transfer of property with permission of the right holder in the European Union). Where in the *UsedSoft* case Oracle provided its customers with licenses for the use of its software (rather than ownership rights in a copy of this software), the ECJ nevertheless found that Oracle's operations "involve the transfer of the right of ownership of the copy of the computer program in question" (§ 46). The ECJ found that Oracle's rights in such copies were subject to exhaustion, notwithstanding the existence of contractual terms prohibiting a further transfer. Under the circumstances of the *UsedSoft* case – "a customer of Oracle who downloads the copy of the program and concludes with that company a user licence agreement relating to that copy receives, in return for payment of a fee, a right to use that copy for an unlimited period" (§ 45) –, the rightholder in question can no longer oppose the resale of that copy (§ 77).

4) What is the rationale/justification under your law for the exhaustion of rights?

The rationale for exhaustion of rights is to find a proper balance between the exclusive rights of the copyright holder and the interest of a free circulation of goods. Another justification can be found in the fact that the principle of exhaustion of rights enhances legal certainty.

International exhaustion (specific issue 1)

5) Does your law recognise international exhaustion of copyright? Specifically, if a copyright-protected work stored on a tangible medium (such as CD or DVD) which was lawfully made and distributed outside your jurisdiction is imported into and sold in your jurisdiction, may the holder of the copyright in your jurisdiction assert his/her copyright against such copy?

No, Dutch law does not recognize the principle of international exhaustion. Dutch law only recognizes regional exhaustion for the European Union and/or European Economic Area (*i.e.* Article 12b DCA and article 4.2 Directive 2001/29/EC). With regard to neighbouring rights, Dutch law (also) only recognizes regional and not international exhaustion.

With regard to copies lawfully made and distributed outside the Netherlands but inside the European Union and/or European Economic Area, the answer to the second question

is no. With regard to copies distributed outside the European Union and/or European Economic Area the answer to the second question is yes.

- 6) If your law recognises international exhaustion of rights, what is the rationale/justification under your law for such international exhaustion?

Not applicable. With regard to regional exhaustion reference is made to the answer to question 4.

On-line exhaustion (specific issue 2)

- 7) Does your law recognise on-line exhaustion or exhaustion in the case of downloaded copies of copyrightable works? Under which conditions are which kind of rights in different kinds of copyright-protected works exhausted?

Does your law recognise on-line exhaustion or exhaustion in the case of downloaded copies of copyrightable works?

Yes. The DCA as well as the DNRA, as such, do not distinguish between online and offline works. We read the term 'online exhaustion' as meaning the exhaustion of downloaded copies or of works distributed online, rather than online exhaustion being linked to a certain geographical territory.

As no distinction is made between online and offline works, in relation to software products it does not matter whether the software is made available on a physical data carrier or a digital copy that is being distributed online.

However, this may be different for copyrightable works that are distributed or made available as a service. The Copyright Directive explicitly states (preamble para. 29) that the exhaustion doctrine does not affect services as such and in particular not online services (e.g. streaming of video's). This also applies to actual copies of a work which have been created by a user of a service with the permission of the right holder. The same applies to the renting or borrowing of originals or copies of works, which by nature are services (such as Software as a Service).

Under which conditions are which kind of rights in different kinds of copyright-protected works exhausted?

As the DCA nor the DNRA differentiate between different kinds of works, as a matter of principle the exhaustion rule equally applies to all types of works.

The decision of the Court of Justice in UsedSoft/Oracle (3 July 2012 C-128/11) has widened the scope of the exhaustion doctrine by allowing the resale of software licences in spite of contractual limitations. Dutch law has to be interpreted fully in accordance with this decision. Therefore, if a copy of a computer programme is first sold in the EU by or with the consent of the right holder, the latter's rights to that copy of the software are exhausted and further distribution of that copy cannot be prevented.

Even though the UsedSoft decision has been highly criticized and is the subject of an ongoing debate, the Dutch Courts can be expected to apply all elements of the UsedSoft doctrine:

- that if the licence is granted for an unlimited period of time and for a one-time fee (representing the economic value of the software), such a transaction actually involves a transfer of the ownership of the software copy and therefore constitutes a "sale";
- that a contractual provision that the licence is non-transferable will no longer be enforceable against the purchaser of the software under a resale contract;

- that the exhaustion rule applies regardless of whether the software was made available as a hard copy or through a download;
- that any resale of second-hand software would include software updates and upgrades that have been provided under a maintenance agreement, as these have become part of the software;
- that the original licensee/reseller may not sell only part of the licence (for example insofar as he has an unused surplus of permitted users), and must stop using the software himself by disabling/destroying his own copies of the software.

After the UsedSoft decision it remains unclear whether the exhaustion rules developed in that decision also apply to custom software or software that is being provided as a service rather than a product.

- 8) Are rights exhausted in a perpetual or non-perpetual licence? Are "re-sellers" of digital copies allowed to further re-sell such digital copies under the circumstances described in UsedSoft v. Oracle? Can multi-user-licences be split up and sold separately?

Are rights exhausted in a perpetual or non-perpetual licence?

As per the UsedSoft decision, rights in perpetual licences are considered to be exhausted, if the licence is granted for an unlimited period of time, and for a one-time fee (representing the economic value of the software). The licence is then effectively regarded as a sale. Therefore, the exhaustion rule does not apply to licenses granted for a limited duration.

Are "re-sellers" of digital copies allowed to further re-sell such digital copies under the circumstances described in UsedSoft v. Oracle?

Yes, they are, bearing in mind the conditions set out above (resale of full licence and cease of use of the licence by reseller). However, it is still unclear whether their 'right to resell' also applies to custom software.

Can multi-user-licences be split up and sold separately?

No. The rule in the UsedSoft decision that the licensee may not split up and resell parts of a multi-user licence separately may be expected to be applied by the Dutch courts in full.

- 9) Is a distinction made for each kind of copyright-protected work (computer programs, music files, e-books and videos)?

The DCA nor the DNRA differentiate between different kinds of works. Therefore, the exhaustion rule may be deemed to apply to all types of works and as a matter of principle there seems to be no good reason why the reasoning of the CJEU with regard to the resale of second-hand software would not apply to other second-hand objects (such as music files, video works and e-books) that are protected by copyright.

However, sometimes differences exist within the various kinds of copyright-protected works. For example, a distinction should probably be made between the distribution of standard software and custom made software. For standard software the UsedSoft rules are applicable without doubt, whereas this is not so clear for custom made software.

Also, it is being argued that a distinction should be made between works that are being licensed for an unlimited duration, to which the UsedSoft doctrine applies, and works that are being licensed for limited duration, in which case the UsedSoft rules do not apply.

Furthermore, a distinction is made in regard to the way in which the copyright-protected work is being distributed and the terms under which the distribution takes place. For example the exhaustion rule is applicable in relation to a digital copy that is being made available online and which is meant to be stored on the hard disk of the computer of the purchaser. However, in case the transaction does not lead to a copy of the work being more or less permanently stored on the computer of the purchaser (e.g. in case the work is made available through streaming), the exhaustion rule is considered not to be applicable.

- 10) If your exhaustion regime for digital works differs from that for analogue works, what is the rationale/justification for such difference?

Not applicable – there is no difference.

Exhaustion of copyright-protected works in case of recycling and repair of goods (specific issue 3)

- 11) In the case of recycling or repair of goods which are copyright-protected works, to what extent may one recycle or repair such goods without infringing (1) the right of reproduction, (2) the right of adaptation, the right of arrangement and/or other alteration rights; or (3) the right to integrity?

(1) right of reproduction

(i). Under Dutch copyright law, there is infringement of the right to reproduction if the copyright-protected features of a work are reproduced. Therefore, one may recycle or repair goods to the extent that such recycling or repairing does not imply/involve reproducing the copyright-protected features of the work.

(ii). Also, there are exceptions and limitations to the right of reproduction, such as the private copying exception. Under article 16b DCA, the reproduction of a work is not considered copyright infringement provided that this reproduction is limited to a few copies for the non-commercial purposes of the own practice, study or use of the natural person reproducing the work or commissioning the reproduction for his benefit. Recycling or repair for commercial purposes would therefore not fall within the scope of this exception. Also, the private copying exception does not apply to constructing a building after the example of a copyright-protected work (article 16b paragraph 6 DCA).

Under article 16c DCA, the reproduction of a work on a medium designed for playing or showing the work concerned (i.e. data storage carriers) is not considered copyright infringement provided that this reproduction is made for the non-commercial purposes of the own practice, study or use of the natural person reproducing the work and the right holder receives fair compensation. The natural person making the copy is prohibited from handing over such a reproduction to a third party. Recycling or repair for commercial purposes would therefore not fall within the scope of this exception.

(iii). Finally, under Dutch law, rights or powers cannot be exercised to the extent that this would be considered abuse of power (article 3:13 DCC). Therefore, a copyright holder cannot forbid recycling or repair insofar as this would be considered abuse of his reproduction right. However, an appeal to abuse of power cannot easily be accepted.

(2) the right of adaptation, the right of arrangement and/or other alteration rights
See above under (i)-(iii), as well as the following paragraph ('right to integrity').

(3) the right to integrity

Article 25 DCA provides that the author of a work has the right, even after he transferred his copyright, to resist (*inter alia*) any change of the work unless such resistance would

conflict reasonableness and any distortion, mutilation or other impairment of the work which could damage the honor or good name of the author or his dignity as an author.

Therefore, one may recycle or repair goods which are copyright-protected works to the extent that such recycling or repair does not infringement on the right to integrity.

II. Policy considerations and proposals for improvements of the current law

12) How should the law treat exhaustion of rights?

Specifically,

- a) Should exhaustion of rights occur for all kinds of works or should exhaustion be limited to certain kinds of works?

The Dutch group is of the opinion that the principle of exhaustion should apply to all kinds of works.

- b) Which right(s) should be exhausted?

The principle of exhaustion should apply to the right of distribution but not to the right of reproduction, nor the right of lending and/or renting of copies.

- c) What should be the requirements for exhaustion of rights to occur?

The law currently demands transfer of the right of ownership (other than for example required for trademark exhaustion). It is argued in Dutch literature that this creates a problem with regard to intangible goods (such as bits and bytes / datamedia) under Dutch law. The reason for this is that ownership is deemed to apply only to tangible property. However, in its UsedSoft decision the CJEU held that the transfer of ownership also regards intangible copies of datamedia.

The most essential requirements for exhaustion are that the right holder has authorized the entry into circulation of a copy and received a compensation corresponding with the value of the copy and that there are enough safeguards making sure that a reseller does not keep a copy of the forwarded datamedia. When these requirements are fulfilled, a reference to transfer of the right of ownership may be omitted.

- d) Should copyright be exhausted even if the first sale of a copy by which exhaustion occurs is cancelled due to non-payment of the sales price or similar circumstance?

If the legal basis of the exhaustion is, later on, for some reason, nullified so that the first sale never legally existed, the copyright should not be deemed exhausted.

International exhaustion (specific issue 1)

13) Should there be international exhaustion of copyrights?

No, choosing for international exhaustion would interfere with the protection mechanism of the internal market of the European Union which has been in place in the EU for decades and which has been included in the Copyright Directive as one of the pillars of the scope of protection of copyrights in the EU.

On-line exhaustion (specific issue 2)

14) Should there be on-line exhaustion of downloaded copies? In your view, are downloaded copies fully comparable with copies stored on tangible data media?

Should there be on-line exhaustion of downloaded copies?

At first sight on-line exhaustion seems to be at odds with the system of the DCA and the DNRA. Exhaustion only regards the actual copy of a work and the right to (further) distribute that particular copy. However, when it comes to downloaded copies, further distributing that downloaded copy would also entail reproducing it, as the next recipient would be loading it onto its computer, which is considered reproduction. It therefore seems impossible to re-distribute a downloaded copy without violating the reproduction right that is reserved for the copyright holder.

In its step-by-step approach the CJEU has now accepted that works that are being made available through online distribution should also be subject to exhaustion at more or less the same terms as apply to works that are distributed in an off-line fashion. This appears to be a just and reasonable decision. The exhaustion of rights for works that are being distributed online is in line with the principles of free movement of goods and services. If the exhaustion principle would not apply to situations of online distribution, the right holder would have an opportunity to interfere with the trade after the first sale, which could lead to severe restrictions of commerce for such products. Furthermore, the right holder would have an opportunity to seek additional remuneration on top of the compensation which he already obtained upon the first sale, which could be in conflict with the principle that the right owner must have the opportunity to obtain a reasonable compensation for his creative efforts. There is also a societal interest which could come into play, when the right holder would decide to no longer make available his work. If it would be possible in such a situation to freely redistribute second-hand copies of the work without intervention of the right holder the work would remain available to a larger part of the public which could be considered beneficial for society as a whole.

On a more practical note and in view of the extensive use of downloaded works, something could be said for allowing a user to be able to further distribute or share a copy of the downloaded work, at least within a small circle, for example among direct family members or other limited groups. A similar exception is already in place for the recitation, performance or presentation in public of (part of) a work or a reproduction thereof.

Are downloaded copies fully comparable with copies stored on tangible data media?

No. In view of the previous question, downloaded copies are more difficult to deal with, as their distribution always entails reproduction, which is not the case with tangible copies. Also, it will be easier for the user of a downloaded copy to reproduce/copy the downloaded version and to re-distribute those copies (perhaps even while keeping his own copy or another copy), whereas doing that with a tangible copy is (depending on the type of work) more difficult or even impossible. As a consequence, it will probably be more difficult for the copyright holder to control or prevent such infringements.

- 15) If there should be on-line exhaustion, under which conditions should different kinds of rights be exhausted? Should there be any differences between downloading a work and streaming it? Should rights be exhausted in a perpetual or non-perpetual licence? Should "re-sellers" of digital copies be allowed to further re-sell such digital copies? Should multi-user-licences be split up and sold separately?

If there should be on-line exhaustion, under which conditions should different kinds of rights be exhausted?

From a general point of view the conditions for online exhaustion should at least be the ones listed in the UsedSoft decision.

This means that if the copy of a work is made available with the intention (e.g. in the case of software expressed by the conclusion of a user licence agreement for that copy) to make the copy usable by the customer, permanently, in return for payment of a fee which may be deemed a remuneration which corresponds to the economic value of the copy of the work of which the right holder is the proprietor (para 45 UsedSoft decision).

Largely on the basis of the UsedSoft doctrine developed by the CJEU we take the view that for works that are made available online, exhaustion of the right of distribution should occur for any work protected by copyright in the event that:

- The distribution of the online copy can be viewed as a sale, which will generally be the case if the purchaser will receive a copy of the work which is meant to be stored on his computer or other data carrier.
(note: the distribution of the online copy of the work will not be viewed as a sale in case the work consists of software or other digital work which is being made available in the frame of a service (e.g. streaming of content or the use of software 'in the cloud') which does not lead to the user of the service gaining possession of a copy of the software or other work);
- upon the sale a licence is granted for an unlimited period of time or for a period that is equivalent to the normal life span of the work and for a one-time fee (representing the economic value of the copy of the work);

In such a case the transaction must be deemed to involve a transfer of the ownership of the copy of the work and therefore constitutes a "sale".

In relation to software this approach could apply to both standard software and custom software as there seems to be no good reason to adopt a different approach to each of these.

In such cases exhaustion of the right of distribution should only occur on the following conditions:

- that the sale involves the full licence granted to the seller or his predecessor and does not involve only part of the licence (for example an unused surplus of a certain number of permitted users);
- that the seller must stop using the software himself by disabling/destroying his own copies of the software.
- that any resale of second-hand software would include software updates and upgrades that have been provided under a maintenance agreement, as these have become part of the software;

Should there be any differences between downloading a work and streaming it?

It follows from the foregoing – and more specifically from the requirement that the act of distribution leads to the purchaser gaining possession of the copy of the work - that a work that is made available by streaming should be treated differently and cannot be treated in the same way as a downloaded work. A work that is made available through streaming will not end up as a copy in the possession of the user of the streaming service.

Should rights be exhausted in a perpetual or non-perpetual licence?

It follows from the UsedSoft decision that a work that is distributed under a perpetual licence and for a one-time fee which represents the economic value of the software should be deemed eligible for exhaustion.

This view gives rise to the question whether there is a meaningful difference between a perpetual licence and a licence for a very long period of time – e.g. 10 or 20 years, but not perpetual or without limitation.

Some commentators take the view that the making available of a copy of the work for a limited period of time would amount to renting out the work which would then be exempted from exhaustion. Such a strict distinction would probably have the consequence that owners of works protected by copyright will no longer make available their works under perpetual licences and only do so on the basis of licences for limited duration – which would take the distribution in the realm of rent.

It is probably fair to say that the exhaustion rule should also apply in case the use of the work is licensed for a period that is equivalent to the normal life span of the work and the fee that is paid upon the distribution represents the value of work or its use during this normal life span.

Should “re-sellers” of digital copies be allowed to further re-sell such digital copies?

Yes, provided the resale leads to the copy of the work being destroyed by the reseller and thereby getting out of reach / control by the reseller.

Should multi-user-licences be split up and sold separately?

No, not under the rules formulated in the UsedSoft decision and this view is fully supported by this group.

- 16) Should a distinction be made for each type of copyright-protected work (e.g. computer programs, music, books and films)?

The DCA nor the DNRA differentiate between different kinds of works. In accordance with the UsedSoft ruling there seems to be no good reason for such differentiation and therefore it is good and reasonable that the exhaustion rule is applied to all types of works.

Exhaustion of copyright-protected works in case of recycling or repair of goods (specific issue 3)

- 17) To what extent should one be able to recycle or repair goods which are copyrightable works without infringing (1) the right of reproduction, (2) the right of adaptation, arrangement and other alteration rights; and (3) the right to integrity?

The group considers that repair of an exhausted copy of a copyright-protected work should in principle be permissible, except to the extent that such repair infringes on the author's right to integrity.

For recycling, the group considers that it is satisfied with Dutch copyright law on this point (see question 11 above). In principle, one should be able to recycle a protected work to the extent that such recycling would not infringe on the right of reproduction or right of adaption of the right holder or infringes on the author's right to integrity.

III. Proposals for harmonisation

- 18) Should exhaustion of rights as set forth in Question 12 above generally be harmonised? Please provide your reasons.

The Copyright Directive has been implemented in the Dutch Copyright Act already. However, (as discussed in question 2) the Dutch Supreme Court has now requested the CJEU to (1) clarify the scope of Article 4 paragraph 2 of the Copyright Directive, and (2) to clarify the level of freedom the national courts have in relation to include exceptions to the rule of exhaustion in article 4 paragraph 2 of the Copyright Directive in national law.

In our view, the exhaustion of rights as set forth in Question 12 should be generally harmonized in the EU for the protection of the internal market.

The main reason for harmonizing copyright legislation and the exhaustion principle within the EU is the fact that the EU has a single market. The single market does not function properly in case different regions within the market have different exhaustion rules which generally are considered to be disadvantageous for right holders.²

On a worldwide level, this single market argument does not exist and copyright protection is not harmonized. The Dutch group does not see this disparity as a problem and in any event the group is of the opinion that further harmonization should not lead to the adoption of international (worldwide) exhaustion.

19) Should international exhaustion of rights be harmonised or not? Please provide your reasons.

No, in our view there is no need for harmonization of exhaustion rules at a worldwide level, certainly not if such harmonization would lead to the adoption of international exhaustion for all territories. Reference is made to the answers provided to question 13 and 18.

20) Should on-line exhaustion of rights be harmonised? Please provide your reasons.

Yes, there are several good reasons for a need for harmonised rules within the EU:

- the Internet is a worldwide network with no borders;
- the right of distribution has already been harmonised within the EU, so the same should be done with online exhaustion. If this would not be achieved this could result in leakage of the harmonised EU system and disparity of protection which easily gives rise to obstacles to the free movement of works in the online world.

21) Should exhaustion of rights in case of recycling and repair of goods be harmonised? Please provide your reasons.

Considering the principle of one EU market and the free movement of goods on the one hand and the fact that copyright protection is a cross-border protection by its nature (even though the level of protection may still vary per Member State) on the other, we believe in a uniform **??** approach. For that reason, we think that the (application of the) exhaustion principle and any exceptions to copyrights should be harmonised. It gives more legal certainty.

With regard to Questions 18 through 21, if you note that harmonisation is desirable, we will assume that harmonisation should be as your proposals for improvements of the current law as described in your answers to Questions 12 through 17. If that is not the case, please explain.

NOTE:

² COM(96) 586 final 20.11.1996, p.18.

It will be helpful and appreciated if the following points could be taken into consideration when editing the Group Report:

- kindly follow the order of the questions and use the questions and numbers for each answer
- if possible type your answers in a different colour
- please send in a word document
- in case images need to be included high resolution is required for good quality printing.