

The Oracle Speaks Case C-128/11

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This case note discusses the implications of the decision in *UsedSoft GmbH v. Oracle International Corporation* delivered by the Grand Chamber of the Court of Justice of the European Union on 3 July 2012.

Some see the case as interference in contractual liberty, claiming that since Oracle contracted with its customers merely to licence its products, the European Court re-wrote that agreement in favour of an outcome based on the concept of sale. Others would argue that the provisions of the applicable Directive mandated a strong warning that a first sale would dissolve rights to claim copyright in any way that would inhibit any further distribution of a product that had already been paid for. Legal advisors might look at the actual decision in the case and say: “Well, they have decided that – but I know a way around it!” One wonders at that since the decision has at least the germ of some policy principles that cannot be ignored.

It is the purpose of this note to discuss these implications. We feel, however, that perhaps the most significant aspects of the case are: firstly, the emphasis placed by the European Court on appropriate economic remuneration for copyright; and, secondly, the rewriting of the form of a transaction to reflect its true underlying reality. This may be an approach that simply withers on the vine in future years or it may lead to a trend in future European Court decisions. Indeed, these principles could develop into a legal principle akin to fair use in the United States of America. It is how the case law develops as a result of this decision that will determine whether it is a founding pillar of a new attitude to copyright.

The facts

Oracle, the plaintiff, is typical of many software companies. It can be supposed that it writes software to order but it also has stock software that it sells to customers. This comes in CD format only rarely. More often it is downloaded from the Internet under an agreement, the price for which includes updates and patch fault corrections. This is what the agreement actually said:

With the payment for services you receive, exclusively for your internal business purposes, for an unlimited period a non-exclusive non-transferable user right free of charge for everything that Oracle develops and makes available to you on the basis of this agreement.

Hence, the agreement was unlimited. Further, the licence was explicitly “non-transferable”; this meant that the licence could not be sold, a lawyer reading it might think. As time passes, the software if not corrected and updated becomes less useful. Hence, while the customer of Oracle is getting a product for the price paid, in the shape of the download or the CD, he is also getting an ongoing service of correction and improvement to the software. The cost of the software is determined in blocks; 25 users are required and if a business needs 26 but no more, then it has to buy two blocks of 25 of which 24 are surplus to requirement. This is where UsedSoft came into the picture. That company took already-used licences and

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Note: For a copy of any Irish judgment mentioned in this paper, please see www.courts.ie or www.bailii.org. For judgments of the European Court of Justice, please see http://curia.europa.eu/jcms/jcms/j_6/; and for judgments of the courts of England and Wales, please see www.bailii.org.

marketed them. In effect, and this is not explicitly stated in the judgment, what was for sale was a set of numbers and letters whereby a customer of what might be called the second-hand licence used the Internet to become entitled to the software and to the patches and corrections which came with any lawful relationship to Oracle. That development was litigated. In Germany, the Bundesgerichtshof (the Federal Court of Justice) held on appeal that UsedSoft's customers could not rely on what was claimed to be the valid transfer of a right to use the software. In this decision, one might note the absence of any notion that a sale had taken place, as in the sale of a book that one might pass to another when read. Instead it was held that the actions were a breach of the exclusive right of Oracle to control any permanent or temporary reproduction of a computer programme under the Computer Programmes Directive.¹ That right, however, was subject to an exception in the Directive. We will not reproduce the legislation since the judgment, available at www.curia.eu (enter Case C-128/11) has it all. This note concentrates on the key sections.

The key aspects of the legislation

Computer programs have been treated as literary works in Europe since the WIPO Copyright Treaty of December 1996. The U.S. and most major economies are party to it. Under Article 8, the authors of literary works enjoy the exclusive right to authorise the communication of such works to the public. Under Article 6(1), this right extends to making available "*the original and copies... through sale or other transfer of ownership.*" An exception to this unfettered privilege arises under Article 6(2) and the exception is that the right can be extinguished through exhaustion of the right. This specifies that the parties to the Treaty may "*determine the conditions... under which the exhaustion of the right... applies after the first sale or other transfer of ownership...*" This exception is explicitly taken up in the European Copyright Directive; apparently more strictly, since Article 3 provides authors with the exclusive right to "*authorise or prohibit any communication to the public of their works...*", coupled with a declaration that such rights "*shall not be exhausted by any act of communication to the public*".² The Computer Programs Directive sensibly recited that actions of loading and running a copy of a lawfully acquired program cannot "*be prohibited by contract.*" Article 4 of that Directive is crucial. It gives exclusive rights "*to do or to authorise*": "*the permanent or temporary reproduction of a computer program*"; "*the translation, adaptation, arrangement and any other alteration of a computer program*"; and "*any form of distribution to the public, including the rental, of the original computer program or of copies thereof.*" Article 5 provides that "*in the absence of specific contractual provisions*" no such authorisation is needed for the necessary use of a computer program "*by the lawful acquirer in accordance with its intended purpose...*" These rights, on an ordinary reading except where there is a contract to the contrary, are subject to a defence under Article 4(2), which is the exhaustion of right defence. This provision needs to be quoted:

The first sale in the Community of a copy of a program by the rightholder or with his consent shall exhaust the distribution right within the Community of that copy, with the exception of the right to control further rental of the program or a copy thereof.

Read this Article on its own and the *UsedSoft v. Oracle* decision of the European Court appears correct. Once you sell a copy of a program your distribution rights are over as regards a sale. The program may be resold but, because you retain as a matter of apparent policy the right to make a living out of your intellectual property,

¹ Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs, O.J. L111/16, 5.5.2009. This Directive codifies Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs, O.J. L122/42, 17.5.1991.

² Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, O.J. L167/10, 22.6.2001.

the purchaser cannot rent out the program thus depriving the creator of the possibility of selling further copies. A sale is thus a sale, a transfer of property in perpetuity or as the Oracle contract said “*for an unlimited period*”, and rental is different. The difference being that in a sale one person gets the copy forever and can do what he wants with it, a bit like buying a book and reading it and then passing it to a friend, in contrast to a rental where the person has the copy for a limited time. It might be some consolation for rightholders to know that neither sale nor rental authorises the making by the purchaser or renter of a further copy. That remains so despite this decision.

Sale as an independent concept

In European legislation, a concept may be expressly left to the member states to be defined; in which case varying national definitions may implement the duty of effective cooperation under the Treaty on European Union to achieve a consistent result. If there is no such derogation, in the absence of specific definition within the legislation, the Court of Justice of the European Union will provide an independent and uniform interpretation for the entire European Union.³ This is what the Court in *UsedSoft v. Oracle* proceeded to do. Sale, as a central concept to the exception in Article 4(2) of the Computer Programs Directive, was to be an autonomous concept throughout Europe so that it would be interpreted in each member state uniformly.⁴ And this is the European Court definition of a sale:

*According to a commonly accepted definition, 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. It follows that the commercial transaction giving rise, in accordance with Article 4(2) of Directive 2009/24, to exhaustion of the right of distribution of a copy of a computer program must involve a transfer of the right of ownership in that copy.*⁵

So, was the arrangement whereby a customer bought a licence from Oracle and used it to download a program from the Oracle website a sale? Without the user-licence agreement that went with that sale by download, it would seem that access would be denied. Under the contract to obtain the licence, not a sale, Oracle argued that all that was obtained was “*a non-exclusive and non-transferable user right for an unlimited period...*” where the copy of the program was described as “*free of charge*”; the licence being what the customer paid for. Would not such an arrangement constitute “*specific contractual provisions*” pursuant to Article 5 of the Computer Programs Directive whereby authorisation to transfer would be needed to effect a lawful transfer? The European Court founded its answer on its own construction of the legal attributes of a sale: if a CD-ROM is transferred that is a physical sale coupled with an agreement to use it; the act of downloading should be no different. It took the view that a sale by way of access or by way of the delivery of a physical copy cannot be divorced from the agreement as to how it might be used; in looking at a transaction, and here following the reasoning in tax avoidance analysis to uncover the true nature of a scheme, the elements cannot be considered piecemeal but as a whole.⁶ Sale, the European Court reasoned, encompasses “*both tangible*

³ Case C-5/08 *Infopaq International A/S v. Danske Dagblades Forening* [2009] E.C.R. I-6569 at para. 27.

⁴ Case C-510/10 *DR, TV2 Danmark A/S v. NCB – Nordisk Copyright Bureau* [2012] E.C.R. I-0000 at para. 34.

⁵ Para. 42.

⁶ The foundation of the principle whereby an abusive process identifies and then nullifies a purported compliance of law has been part of the jurisprudence of the European Court of Justice since 1974; Case C-33/74 *Van Binsbergen v. Bestuur van de Bedrijfsvereniging voor de Metaalnijverheid* [1974] E.C.R. 1229. For a case applying that to a domestic transaction, see *Cussens v. Brosnan* [2008] IEHC 169, (Unreported, High Court, Charleton J., 11 June 2008). The cases relied on by the European Court in the *Oracle* judgment were Joined Cases C-145/08 and C-149/08 *Club Hotel Loutraki & Others* [2010] E.C.R. I-4165, paras 48 and 49.

and intangible copies of a computer program". Further, the elements of passing a copy in physical form or by download and licence are inseparable:

In this respect, it must be observed that the downloading of a copy of a computer program and the conclusion of a user licence agreement for that copy form an indivisible whole. Downloading a copy of a computer program is pointless if the copy cannot be used by its possessor. Those two operations must therefore be examined as a whole for the purposes of their legal classification...

As regards the question whether, in a situation such as that at issue in the main proceedings, the commercial transactions concerned involve a transfer of the right of ownership of the copy of the computer program, it must be stated that, according to the order for reference, 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. The making available by Oracle of a copy of its computer program and the conclusion of a user licence agreement for that copy are thus intended to make the copy usable by the customer, permanently, in return for payment of a fee designed to enable the copyright holder to obtain a remuneration corresponding to the economic value of the copy of the work of which it is the proprietor...

In those circumstances, the operations... examined as a whole, involve the transfer of the right of ownership of the copy of the computer program in question.⁷

Key to this concept of what constitutes a sale is what a sale is not. It is not what a transaction is dressed up as that identifies its true nature. Parties may contract for a particular arrangement; but the arrangement may turn out to be what they have agreed their mutual rights and obligations are. Under contract, the purchasers of the Oracle product, let us call it that just for the moment, had to: buy in blocks; not sell on; not transfer; not copy; use only within the business identified as that was described as the licence holder; and enter into an arrangement for patches and updates as an identified customer. In other words, the relationship was a development of early computer services and sales whereby a plan was worked out for a specific customer with particular needs. This is identifiable and continues today as a vital part of the industry. In contrast, general models for accounting, analysis, word search as a legal analysis tool, and countless other services are now available to buy as a package. In effect, following the logic applied by the European Court, where a customer buys a package, rights under an ongoing relationship by the provider are exhausted. Where does that leave freedom to contract?

But, first, a brief word on the U.S. position.

A word on the U.S. position

In 2010, the United States Court of Appeals for the Ninth Circuit had occasion to consider the sale/licence distinction in *Vernor v. Autodesk, Inc.*⁸ Timothy Vernor

⁷ At paras. 44 to 46. The authors would also like to mention two decisions of the German courts which pre-date the *Oracle* decision. The authors have been unable to obtain an official English report of these decisions and rely here only on what they could ascertain from various Internet searches. In *Usedsoft v. Microsoft* (2008), a Hamburg Court reportedly granted an injunction prohibiting Microsoft from publishing misleading allegations regarding the legality of the trade in used software. In *Susensoftware v. SAP* (2009), Susensoftware reportedly obtained injunctive relief against SAP after one of its employees apparently advised a customer that it could not lawfully purchase second-hand software without the consent of SAP. It is also reported that, following the *Oracle* decision, the Federation of German Consumer Organisations (VZVB) issued proceedings against computer game distributor, Valve, in the District Court of Berlin, for prohibiting users from reselling its game, Steam. This case is understood to be ongoing.

sought to sell copies of Autodesk Inc's AutoCAD Release 14 software on the auction website, eBay. Mr. Vernor acquired the software from CTA, which had itself acquired ten copies of Release 14 from Autodesk. CTA later upgraded to a newer version of the software, paying a special upgrade fee offered to existing customers. The Software Licence Agreement for the upgrade required the destruction of copies of previous versions of the software, and gave Autodesk the right to require proof of such destruction. However, rather than destroying its copies of Release 14, CTA sold them to Mr. Vernor, who later listed them for sale on eBay.

It would seem that Mr. Vernor made his living on eBay. He had previously sold copies of Release 14 there. Autodesk's response each time Mr. Vernor listed its software for sale was to file a copyright infringement and take-down notice with eBay, inconveniencing Mr. Vernor; on one occasion leading to the suspension of his eBay account. After receiving a letter from Autodesk's lawyers warning of "*further action*" if he did not cease his eBay sales, Mr. Vernor decided to seek declaratory relief to establish that his re-sales did not infringe Autodesk's copyright. He relied on the first sale doctrine⁹ and the essential step defence¹⁰, the former being equivalent to the European doctrine of exhaustion and the latter to the Article 5 defence in the Computer Programs Directive. These defences can only be relied on by the owner of a copy of a copyright work, and not by a licensee. To get the relief he required, Mr. Vernor had to persuade the Court that Autodesk had sold, and not licensed, the software to CTA. Mr. Vernor was successful before the District Court, which viewed the fact that CTA was entitled to keep its copies of Release 14 for an indefinite period in return for a single upfront payment as indicative of a sale. It regarded the transaction as a "*sale with contractual restrictions on use and transfer of the software*" and as a sufficient basis to invoke the first sale doctrine. Mr. Vernor's success was short-lived.

The Court of Appeals took that view that the absence of a requirement on Autodesk's customers to return the copies of the software could not be dispositive. It held that a software user is a licensee rather than an owner of a copy where the copyright owner (i) specifies that the user is granted a license; (ii) significantly restricts the user's ability to transfer the software; and (iii) imposes notable use restrictions. The Release 14 licence agreement did all these things. Autodesk's direct customers, including CTA, were, therefore, licensees of their copies of the software, rather than owners. It followed that Mr. Vernor did not receive title to the copies of Release 14 he acquired from CTA and he could not pass ownership on to others. Both CTA's and Mr. Vernor's sales were found to have infringed Autodesk's exclusive right to distribute copies of its work.¹¹

On behalf of Mr. Vernor, it was said the decision raised policy considerations in that: (i) it did not vindicate the law's aversion to restraints on alienation of personal property; (ii) it could force those purchasing copyrighted property to trace the chain of title to ensure that a first sale had occurred; and (iii) it ignored the economic realities of the relevant transactions, in which the copyright owner permanently released software copies into the stream of commerce without expectation of return in exchange for upfront payment of the full software price. eBay, which had been joined as an *amicus curiae*, contended that a broad view of the first sale doctrine was necessary to facilitate the creation of secondary markets for copyrighted works, which would ultimately contribute to the public good. The Court recognised these

⁸621 F. 3d 1102 (9th Cir. 2010).

⁹ The first sale doctrine allows "*the owner of a particular copy*" of a copyrighted work to sell or otherwise dispose of his copy without the copyright owner's authorisation. See 17 U.S.C. § 109(a).

¹⁰ The "essential step defence" provides that the "*owner of a copy*" of a copyrighted software program does not infringe copyright by making a copy of the computer program, if the new copy is "*created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner.*" See 17 U.S.C. § 117(a)(1).

¹¹ On 18 January 2011, the Ninth Circuit denied Vernor's request to have the case reheard *en banc* (*i.e.* before the entire bench). In October 2011, the Supreme Court denied Vernor's petition for *certiorari*.

and other policy concerns, but said it was constrained by precedent.¹² It added that Congress was free to modify the first sale doctrine if it deemed a different approach is required.¹³

The integrity of contractual arrangements

In Europe, to call a sale a licence undermines the effectiveness of the exhaustion of rights principle through first sale encompassed in Article 4(2) of the Computer Programs Directive. Although there is logic behind the concept of a sale which equates downloading a computer program with purchasing a copy of a CD ROM in a shop, the European Court seemed to balk at any notion that what is in truth a sale can be turned into an act of rental or a service agreement. One remembers that Article 5 of the Computer Programs Directive provides that “*in the absence of specific contractual provisions*” a purchaser who is a “*lawful acquirer*” of a computer program does not need permission to run the program “*in accordance with its intended purpose...*” Where does this leave the distinction between rental and purchase? The answer appears to be precisely where it was before, with the exception that while you can pretend to contract to restrict what the purchaser of a program can do with it, once the transaction in itself amounts to a sale, no seller can hope to tag on restrictions that stop resale. This is because sale is of its nature under the Computer Programs Directive the exhaustion of the distribution right. What this means is that the copyright holder by selling a copy, sells with that copy the package of uses that go with that copy; the entitlement to use the copy, to pass on the copy, to sell the copy. What is not passed on is the right to copy the copy. In other words, reproduction is limited to the holder for the purpose of use. Rental and sale cannot be intermingled. This is not simply because under the Directive, the control of rental of copies is specifically reserved to the copyright owner, but also because the approach of the European Court was to define sale as a standalone concept. Often definitions are of what a legal concept is not. Since a sale is a sale, a rental must be a rental. One would need to be very clear that sale is the exhaustion of the individual distribution rights of a copy and that rental, incorporating the entitlement to be given back the thing, is not.

Here, the temptation may be to do as Oracle did: to take advantage of the concept of sale while at the same time reserving such rights as are equivalent to rental. What then are the “*specific contractual provisions*” that are allowed in a sale? One might speculate that other rights might appropriately come into play in some circumstances. What if, for example, the program is experimental and passing a copy is pursuant to a relationship between interconnected companies for development or research? Privacy rights or commercial confidence rights might dictate that contractual provisions restricting the passing of the copy might thereby be upheld. That is only a speculation, but the tendency in European case law has been to identify competing and shared rights within a concept and to re-balance what otherwise would be the ordinarily understood nature of a transaction into something else because of the tension between fundamental entitlements.¹⁴ If a

¹² The following cases were cited: *United States v Wise* 550 F. 2d 1180 (9th Cir. 1977); *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993); *Triad Sys. Corp. v. Se. Express Co.*, 64 F. 3d 1330 (9th Cir. 1995); and *Wall Data, Inc. v. Los Angeles County Sheriff's Dep't*, 447 F. 3d 769 (9th Cir. 2006).

¹³ See also the Report of the U.S. Copyright Office on the Digital Millennium Copyright Act (2001), which recommended against amending section 109 to include a digital first sale doctrine on the basis that a real need for the change had not been demonstrated. The Report used the term ‘*digital first sale doctrine*’ to denote a proposed copyright exception that would permit the transmission of a work from one person to another, generally via the Internet, provided the sender’s copy was destroyed or disabled (whether voluntarily or automatically by virtue of a technological measure).

¹⁴ Here, one might think of the tension between Internet use, the entitlement to run a business, the desire to remain anonymous whilst perhaps making untrue and vicious comments about people on the Internet, which have had the effect in some cases of bullying people into suicide, and the entitlement to copyright. The authors have previously referenced a range of possible views for the 2012 Fordham IP Conference: see Copyright as One of Several Competing Rights in European Law, http://fordhamipconference.com/wp-content/uploads/2010/08/Charleton.Kelly_Competing-Rights-Final.pdf. Case C-70/10 *Scarlet Extended S.A. v. Société belge des auteurs, compositeurs et éditeurs SCRL*

company, for instance, manufactures a program and then sells it at considerable cost to a related company in a tax planning scheme was to identify one of the pillars of economic development of the European Union, such as research, the concept would perhaps become arguable. Some might say that this would be dangerous and why take the risk. The exception of exhaustion of right by sale is there and that is that. A better solution would be to rent. Rent is rent because it is not sale.

Cloud computing and other apparent solutions

It may reasonably be predicted that rental of a computer program continues to preserve the right of the copyright holder. If sale is a concept, then so is rental. Of its nature, rental involves the retention of ownership in the program in the lessor and the right of that party to specify what the article to be rented may be used for. Thus, rental agreements are of their nature detailed documents specifying the conditions of use and how long and in what circumstances the relationship is to continue and how it may be ended. It might also be pointed out that sale agreements are detailed only in ensuring that property passes without recourse to the seller. You can have reservation of title pending payment, a common precaution in sales, but once the sale is made, however, that is the end of the rights in the owner. A rental is the preservation of those rights.

Instead of sale, a computer program might be rented. In return for payment, a lessor allows certain reserved rights to be shared. A program might be put on a cloud of computers and accessed on the payment of a fee. If such rights are, as in the Oracle licence agreement, made unlimited as to duration, then there is a problem. That would be a sale. If the rental agreement is to access and use the software for a particular period, say month to month or year to year, then more of the characteristics of rental are present. If patching and updating are part of the rights of the lessee of the program, problems potentially emerge because thereby the true nature of the transaction looks more like a sale. If those services are specifically what are hired out, then the transaction is no more than a service agreement. As a matter of law, under the Computer Programs Directive, once the agreement is for rental, then the decision in *Oracle* does not apply.¹⁵ You cannot rent something under an agreement which specifies that the rental is to the lessee alone and then distort that relationship by judicial decision to turn it on its head. Commercial transactions would not then be predictable. Certainty of law is at the foundation of European law.

David Sweeney, of Sweeney Consulting (www.sweeneyconsulting.com), in an opinion shared with us shortly after the judgment stated the following as what he called “*positive aspects of the decision*”:

1. Exhaustion does not relate to separate contracts for services, such as maintenance agreements (para. 71).
2. The reseller is not authorised by exhaustion to divide the licence and resell only a ‘subset’ of that licence. If the license acquired by the first acquirer

(*SABAM*) is a good example of how matters may extend since there the tension between copyright and the right to communicate led to the view that there is a right always to be anonymous on the Internet. Why? The European Court of Justice did not take up that idea: opinion of the Advocate General at para. 71: “Articles 7, 8 and 11 of the Charter guarantee, respectively, as we know, the right to respect for private and family life, the right to protection of personal data and freedom of expression and information. It is hardly necessary to point out that other fundamental rights are at issue in the present case, and in particular the right to property, guaranteed by Article 17(1) of the Charter, and, more specifically, the right to respect for intellectual property, guaranteed by Article 17(2) of the Charter, the infringement of which owing to unlawful downloading on the internet has reached massive proportions, which are clearly at the heart of the main proceedings. However, in the light of the requested measure and of the filtering and blocking system required and of the terms of the question referred, it is mainly the rights guaranteed by Articles 7, 8 and 11 of the Charter which are involved, since the right to property is only concerned on a secondary basis, in so far as the system must be introduced exclusively at the cost of the ISP.”

¹⁵ See Case C-200/96 *Metronome Musik v. Music Point Hokamp GmbH* [1998] E.C.R. I-1953, where it was confirmed that exhaustion does not arise in the case of rental.

covers a greater number of users than he needs, the acquirer cannot resell those excess licences (para. 69).

3. The reseller of a licence must make his own copy “unusable” at the time of its resale. The Court of Justice of the European Union concludes that right holders can use technical measures to enforce this obligation (para. 79).

It is also to be predicted, however, that tricks to turn the value of immediate return that is fundamental to the economic aspect of sale into something that looks like rental will not be tolerated. European legislation cannot be relied on for abusive or fraudulent ends and cannot be extended to cover abusive practices, *i.e.* practices which are outside the concept of normal commercial operations, but which are effected solely for the purpose of wrongly obtaining an advantage that is otherwise provided in genuine instances by European legislation.¹⁶ This is known as the doctrine of abusive process: it is a principle of general application, which applies to all branches of European law. The doctrine has been part of the jurisprudence of the European Court since 1974,¹⁷ but it is a principle which is within the sphere that has always been exercised by the judiciary of the member states, namely properly characterising transactions according to their true nature and their underlying reality.¹⁸

Oracle’s case was this. It did not sell its software. What it did was make it available free of charge on its website for its customers to download. The customer then entered into a user licence agreement for a non-transferable, non-exclusive right to use the program for an unlimited period of time. For this, he paid a fee. So, you see, two separate steps, neither of which involved a transfer of property rights: it must be a rental, not a sale. This is what Oracle said. But the European Court looked at the reality of the situation. The steps were not independent of each other, rather they formed “*an indivisible whole*.” Step 1 had no purpose without step 2 and *vice versa*: if the customer did not enter the user licence agreement, the downloaded copy of the software could not be used; and what would be the point of entering the agreement without downloading the software. Redefined as “*an indivisible whole*”, the purported rental became a sale: property in the program, and the associated rights and benefits of ownership, were transferred to the customer for his permanent use in return for an immediate once-off return to Oracle.

Advocate General Bot viewed it this way in his opinion:

... taking into account the purpose of [the doctrine of] exhaustion, which is to limit exclusivity conferred by the intellectual property right once the marketing operation has enabled the rightholder to realise the economic value of his right, the term ‘sale’ within the meaning of Article 4(2) of Directive 2009/24 must be given a broad interpretation encompassing all forms of product marketing characterised by the grant of a right to use a copy of a computer program, for an unlimited period, in return for the payment of a one-off fee. An excessively restrictive interpretation of that term would undermine the effectiveness of that provision by divesting the exhaustion rule of all scope, since the marketing of computer software most commonly takes the form of user licences and suppliers would only need to call the agreement a ‘licence’ rather than a ‘sale’ in order to be able to circumvent that rule.¹⁹

¹⁶ *Van Binsbergen v. Bestuur*, see footnote 6 above. See also *Cussens v. Brosnan* at footnote 6 above, where it is stated that “the effect of European Union measures are not to be set at nought through legal transactions that may be apparently valid on their face but which are entered into with the essential aim of undermining the supremacy of European Legislation.”

¹⁷ *Van Binsbergen v. Bestuur*, see above and footnote 6.

¹⁸ *Cussens & Ors v. Brosnan*, see footnote 16 above.

¹⁹ Opinion delivered on 24 April 2012, para. 59. While the Advocate General’s view on the concept of a sale was substantially the same as the view ultimately reached by the European Court, his conclusion differed: “in the event of resale of the right to use the copy of a computer program, the second acquirer cannot rely on exhaustion of the right to distribute that copy in order to reproduce the program by creating a new copy, even if the first acquirer has erased his copy or no longer uses it.”

Economic return as an aspect of safeguarding copyright

What is the foundation of this decision, it might be wondered? What follows can only be speculative, particularly so in light of the ‘sale as exhaustion of distribution rights’ exception to copyright in the Computer Programs Directive. Some may argue that the entitlement to insert “*specific contractual provisions*” into a sale may have allowed the European Court to go the other way.²⁰ In *Football Association Premier League Ltd v. Media Protection Services Ltd*²¹ the issue was the rebroadcast of football matches that were licensed by the Premier League only to a specific territory. One of the issues for the European Court was whether a sporting event was ever, as a matter of first principle, entitled to copyright protection. To take a traditional view from the Anglo-American standpoint, copyright requires original creative work: sitting down to write a novel,²² compiling a telephone directory,²³ revising a Bach score from the manuscripts so as to produce an *Urtext* edition,²⁴ and directing a film are all examples. Spontaneous chat between people in a coffee shop or a spur of the moment speech, are not.²⁵ What at all could be original or creative about bringing a load of cameras to a field and broadcasting fellows belting a ball? Sensible lawyers know that if a point has merit, giving a judge a point on which to hang the right decision should bring them over the line. So this is what the Court in *Premier League* had to say:

To be so classified, the subject-matter concerned would have to be original in the sense that it is its author’s own intellectual creation (see, to this effect, Case C 5/08 Infopaq International [2009] ECR I 6569, paragraph 37).

However, sporting events cannot be regarded as intellectual creations classifiable as works within the meaning of the Copyright Directive. That applies in particular to football matches, which are subject to rules of the game, leaving no room for creative freedom for the purposes of copyright. Accordingly, those events cannot be protected under copyright. It is, moreover, undisputed that European Union law does not protect them on any other basis in the field of intellectual property.

None the less, sporting events, as such, have a unique and, to that extent, original character which can transform them into subject-matter that is worthy of protection comparable to the protection of works, and that protection can be granted, where appropriate, by the various domestic legal orders.

In this regard, it is to be noted that, under the second subparagraph of Article 165(1) TFEU, the European Union is to contribute to the promotion of European sporting issues, while taking account of the specific nature of sport,

²⁰ That is indeed what was argued by Ireland and several other countries intervening in the argument.

²¹ Case C-403/08, [2011] E.C.R. I – 0000.

²² For example, James Joyces’ *Ulysses*, the copyright in which was closely guarded by the Joyce estate: *Sweeney v. National University of Ireland Cork* [2001] 2 I.R. 6; and *Sweeney v. Macmillan Publishers* [2002] R.P.C. 651.

²³ *Kelly v. Morris* (1866) L. R. 1 Eq. 697, where copyright was found to subsist in a street directory. This may be contrasted with the decision of the U.S. Supreme Court that copyright cannot subsist in a ‘white pages’ telephone directory: *Feist Publications Inc v. Rural Telephone Service Co* 499 U.S. 340 (1991); and the decision of the Canadian Federal Court of Appeal to like effect: *Tele-Direct (Publications) Inc v. American Business Information Inc* (1997) 76 C.P.R. (3d) 296, F.C.A.

²⁴ *Sawkins v. Hyperion Records Ltd* [2005] 1 W.L.R. 3281, where copyright was found to vest in a musicologist who prepared performing editions of the musical works of a seventeenth century baroque composer.

²⁵ In *Falwell v. Penthouse International Ltd* 521 F. Supp. 1204 (1981) the United States District Court found that copyright did not subsist in an interview given by the evangelical minister, Reverend Jerry Falwell, to Penthouse magazine. The Court noted that “*the actual dialogue, including the unprepared responses of [Reverend Falwell], was spontaneous and proceeded in a question and answer format.*” This decision was cited to similar effect by the Court of Appeal for Ontario in *Gould Estate v. Stoddart Publishing Co Ltd* (1998) 80 C.P.R. (3d) 161.

its structures based on voluntary activity and its social and educational function.

Accordingly, it is permissible for a Member State to protect sporting events, where appropriate by virtue of protection of intellectual property, by putting in place specific national legislation, or by recognising, in compliance with European Union law, protection conferred upon those events by agreements concluded between the persons having the right to make the audiovisual content of the events available to the public and the persons who wish to broadcast that content to the public of their choice.²⁶

It is striking how merits-based arguments on the return appropriate for economic investment seem to underpin that decision. The merit being that ‘communication’ as a concept has to take into account what audience was the target of the sale of the licence to broadcast and how any additional public beyond that contracted for was never considered by the entrepreneur in negotiating the price of such rights.²⁷ This establishes a trend, if not a principle, that economic investment attracts intellectual property rights in contrast to the traditional trend of regard being had only to creative work. As the European Court put the matter:

Finally, it is to be observed that it is not irrelevant that a ‘communication’ within the meaning of Article 3(1) of the Copyright Directive is of a profit-making nature (see, to this effect, SGAE, paragraph 44).

In a situation such as that in the main proceedings, it is indisputable that the proprietor transmits the broadcast works in his public house in order to benefit therefrom and that that transmission is liable to attract customers to whom the works transmitted are of interest. Consequently, the transmission in question has an effect upon the number of people going to that establishment and, ultimately, on its financial results.

It follows that the communication to the public in question is of a profit-making nature.

In light of all the foregoing, the answer to the question referred is that ‘communication to the public’ within the meaning of Article 3(1) of the Copyright Directive must be interpreted as covering transmission of the broadcast works, via a television screen and speakers, to the customers present in a public house.²⁸

That decision followed the approach of the Court in ‘*The Hotel Bedrooms*’ case: *Sociedad General de Autores y Editores de Espana (SGAE) v. Rafael Hoteles SA*.²⁹ There the European Court had to determine whether the distribution by a hotel proprietor of a broadcast signal received centrally to rooms within the hotel, enabling guests to see protected works on the television sets in their rooms, constituted a ‘communication to the public’. The Court found that, although the hotel proprietor was merely relaying the signal received by the main hotel aerial, it was making protected works available to a new audience not within the contemplation of copyright owners when they licensed the original broadcasts. Using the classic ‘but for’ formulation, the rationale was as follows: but for the intervention of the hotel proprietor, the hotel guests, although physically within the satellite catchment area, would not have been able to enjoy the protected works. They therefore constituted a

²⁶ Paras. 97 to 101.

²⁷ Paras. 193 and 198 to 200.

²⁸ Paras. 204 to 207.

²⁹ Case C-306/05, [2006] E.C.R. I-11519. See also Joined Cases C-431/09 and C-432/09 *Airfield NV and Canaal Digital NV v. Belgische Vereniging van Auteurs, Compositoren en Uitgevers CVBA (Sabam)* and *Airfield NV v. Agicoa Belgium BVBA*.

“new public”. The Court appears to have regarded the presence of a financial motive as somewhat relevant, or more correctly, as not completely irrelevant. It stated:

...the action by the hotel by which it gives access to the broadcast work to its customers must be considered an additional service performed with the aim of obtaining some benefit. It cannot be seriously disputed that the provision of that service has an influence on the hotel's standing and, therefore, on the price of rooms. Therefore, even taking the view... that the pursuit of profit is not a necessary condition for the existence of a communication to the public, it is in any event established that the communication is of a profit-making nature...³⁰

A further case is worth mentioning in this context. In 2011 the High Court of England and Wales asked the European Court to consider whether live streaming of television programmes as part of a subscriber service constitutes a ‘communication to the public’. The service, operated by TVCatchup Ltd (TVC), permits users to receive *via* the Internet “live” streams of free-to-air television broadcasts. Users must be based in the United Kingdom and must be in possession of a valid television licence: they can only receive access to content which they are already legally entitled to watch. The service, which is free to join, is funded by advertising before and during the live stream; the advertisements actually contained in the original broadcasts are retained unaltered. The English Court asked the European Court whether there is a ‘communication to the public’ when an intervening organisation, acting for its own profit, intervenes in full knowledge of the consequences of its acts and in order to attract an audience to its own transmission and advertisements, to communicate the original broadcast signal to members of the public who would in fact be able to access the original broadcast using their own television sets or laptops in their own homes.

The English Court expressed its own provisional view, having regard to the broad interpretation of the term ‘communication to the public’ mandated by the Copyright Directive. The Court pointed to the following: TVC’s activities are an independent exploitation of the works and other subject matter; they are not merely supportive of the original exploitation of the work; the service is an alternative service to that of the original broadcaster; it includes its own advertising content; it is in competition with the service provided by the original broadcaster; it is operated for profit; and it is intended to attract its own public audience. The Court did not accept that the fact that subscribers can receive the broadcasts direct on their domestic televisions means that they are not a ‘new public’. It noted that the Directive merely requires that the communication be to ‘the public’, subject to a narrow exception that the mere provision of facilities for enabling or making a communication does not in itself amount to a communication to the public. If there is a communication to a new class of the public, then that is a clear indication that one is outside the exception. But, the Court suggested, to hold that every communication to the originally contemplated class is exempted, goes much further than warranted by authority.³¹

The European Court delivered its decision on 7 March 2013.³² Applying the usual broad interpretation, it held that each transmission or retransmission of a work which uses a specific technical means must, as a rule, be individually authorised by the author of the work in question. TVC’s service makes protected works available through the retransmission of a terrestrial television broadcast over the Internet. It

³⁰ At para. 44. Advocate General Sharpston stated at para. 57 of her opinion of 13 July 2006 : “It is clear that in the present case first, the circle of potential recipients of the communication is both extensive and of economic significance for the author and, second, the intervening organisation making the communication does so for its own economic benefit. In such circumstances, the communication should be regarded as being made ‘to the public’. I do not consider that it is necessary or appropriate to decide in the context of the present case whether economic benefit to the person responsible for making the communication is always required in order for a communication to be regarded as ‘to the public’...”

³¹ *ITV Broadcasting Ltd & Ors v. TVCatchup Ltd* [2011] E.W.H.C. 1874 (Pat); [2011] E.W.H.C. 2977 (Pat).

³² Case C-607/11 *ITV Broadcasting Ltd & Ors v TVCatchup Ltd*.

uses a specific technical means different from that of the original communication and is thus itself a 'communication' within the meaning of Article 3(1) of the Copyright Directive. As to whether the works are communicated to a 'public', the Court noted that the service is aimed at all persons resident in the U.K. who have an Internet connection and who claim to hold a valid television licence. Such persons may access the protected works at the same time. It is hard to dispute the Court's finding of a communication to a 'public'. It is not necessary, the Court said, that the communication be to a 'new' public. The fact that TVC was seeking to profit from its venture did not conclusively determine the issue and nor was the fact that it competes directly with the original broadcaster relevant.

There may be another side to this coin. It may be that the flip side of economic merit = intellectual property rights: that a reasonable economic return is all that the creator of intellectual property has an entitlement to. The purpose of copyright law is to encourage and reward creativity and to prevent free-riding on the creative effort of others. The purpose is not, or at least traditionally it was not, to maximise revenue to rightholders at all costs and to confer on them the power to regulate new technologies that control access to their works. The focus traditionally was on the use of the protected work; not the use of the technology employed to distribute it.³³ Hence, staying with the notion of tradition, before the Internet people shared copies of films and books freely by simply handing over what they had read or seen to a friend. Most of us have loaned books to our students or trainees, for instance. You can still lend your kindle, but you cannot legally download what is on your kindle and email it to someone else who wants it. Is it this idea, the recasting of copyright that so many have called for, that underpins the *Oracle* decision?³⁴ Some may see an indication of that trend in this passage in the judgment:

To limit the application, in circumstances such as those at issue in the main proceedings, of the principle of the exhaustion of the distribution right under Article 4(2) of Directive 2009/24 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 an 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 (see, to that effect, Football Association Premier League and Others, paragraphs 105 and 106).³⁵

Rightholders have a right to an appropriate economic return for their efforts and where their copyright has been infringed they have a right to adequate compensation. The writers discussed the adequacy of damages in their paper for the Fordham 2012 Conference.³⁶ Here we merely mention an interesting and very recent decision of the High Court of England and Wales.³⁷ The decision arose out of the Newzbin litigation, referenced in our 2012 Fordham paper.³⁸ Newzbin was a file-

³³ See William Patry, "We need to redefine what copyright means", *The Guardian*, 14 March 2012, at <http://www.guardian.co.uk/law/2012/mar/13/how-to-fix-copyright-extract>.

³⁴ In an article in *The Guardian* newspaper, see above, William Patry stated: "A new structure must provide twenty-first-century solutions to getting authors paid and giving the public access to their creations. This will involve in many (but certainly not all) cases changing the fundamental nature of copyright from a grant of exclusive rights into a right of remuneration: a right to be paid through statutory licensing, collective management of rights, and levies."

³⁵ At para. 63.

³⁶ See footnote 14 above.

³⁷ *Twentieth Century Fox Film Corporation & Ors v. David Harris & Ors* [2013] EWHC 159 (Ch) (5 February 2013).

³⁸ *Twentieth Century Fox Film Corporation & Ors v. Newzbin Ltd* [2010] EWHC 608 (Ch) in which the High Court found that the Newzbin site infringed the claimants' copyright in films; *Twentieth Century Fox Film Corporation & Ors v. British Telecommunications plc* [2011] EWHC 1981 (Ch), in which the High Court granted an application requiring the Internet service provider, BT, to take steps to block access to the

sharing site, the purpose of which was to make available binary content of interest to its users, including infringing copies of films. Following a finding of copyright infringement by the High Court, the company behind the site went into liquidation and the site ceased to operate. Within a matter of weeks, it was replaced by a virtually identical website, Newzbin2, located not in the U.K., but in Sweden. On the application of the copyright owners, referred to for simplicity as ‘the Studios’, the High Court made an order requiring the Internet service provider, BT, to block access to this sister website. In the most recent instalment of this litigation, the Studios sought an interim proprietary injunction to restrain the apparent operator of the website, Mr. David Harris, and various companies with which he is said to be associated, from dealing with and disposing of various assets, including a McLaren sports car. These assets are already subject to freezing injunctions pending the trial of the action, which is expected to take place later this year. The difference between a freezing injunction and a proprietary injunction is that the former restricts a defendant from dealing with his own assets, while the latter restricts a defendant from dealing with assets to which the plaintiff asserts title. To obtain an interim proprietary injunction, the Studios had to establish that there was a serious question to be tried as to whether they had proprietary rights in the relevant assets.

On behalf of the Studios, it was said that where a copyright is infringed, the copyright owner has a proprietary claim to the *whole* proceeds of infringement, such proceeds being held on constructive trust for the copyright owner. It was said that Mr. Harris had profited nicely from his infringing activities and that the Studios were therefore the beneficial owners of all property acquired from revenues generated from his websites. The Court did not think so. Newey J. considered a copyright infringer to be more *akin* to a trespasser than a thief. He used an example:

*Suppose, say, that a market trader sells infringing DVDs, among other goods, from a stall he has set up on someone else’s land without consent. The owner of the land could not, as I see it, make any proprietary claim to the proceeds of the trading or even the profit from it. There is no evident reason why the owner of the copyright in the DVDs should be in a better position in this respect.*³⁹

Counsel for the defendants said the Studios were arguing for a remedy that had never been awarded by any court in respect of any species of intellectual property and that, if granted, such a remedy could have “*a chilling effect on innovation and creativity*”. The Court seemed to agree:

*On [the claimant’s] case, a copyright owner’s claim would not even be limited to the infringer’s profits: in principle, the entire proceeds of sale would be held on trust for the copyright owner. That might both be unfair and stultify enterprise. The proceeds of an infringement might be out of all proportion to the profits generated (e.g. because of the cost of raw materials used in the infringing product). It might not seem just for even a deliberate wrongdoer to have to pay the copyright owner the amount of his gross receipts, and an infringer need not have known that he was breaching copyright. Further... a person might be deterred from pursuing an activity if he perceived there to be even a small risk that the activity would involve a breach of copyright or other intellectual property rights... that could have a chilling effect on innovation and creativity.*⁴⁰

Newzbin site; *Twentieth Century Fox Film Corporation & Ors v. British Telecommunications plc* [2011] EWHC 2714 (Ch) in which the High Court ruled on the terms of the blocking order.

³⁹ Para. 18.

⁴⁰ Para. 19. The Irish Copyright and Related Rights Act 2000, section 134, provides for conversion damages. It states that the owner of any copyright shall be entitled to all such rights and remedies, in respect of the conversion or detention by any person of infringing copies of a work as he would be entitled to if he or she were the owner of every such copy, article or device and had been the owner thereof since the time when it was made. The authors are not aware of any case in which such damages have been

Moves towards a fair use style doctrine

There is a wider issue here, one unpredictable of answer: not what intellectual creativity is worth, but who is to determine not the price, since the market does that, but the conditions of protection whereby the market will be forced to pay that price?

The law in Europe is differently constructed to that of the U.S. or, for example, Israel. Most striking is the absence of a defence of fair use in Europe.⁴¹ There are now proposals to introduce this concept. Before considering these, we should briefly mention the exceptions to the reproduction right currently recognised under European law. These can be found in Article 5 of the Copyright Directive. The list of exceptions is tightly defined and exhaustive. Member states must provide for an exception for certain temporary acts of reproduction, for example to allow for browsing and caching. After that, member states can choose to implement some or all of the twenty optional exceptions. These include exceptions for educational and scientific purposes, for research and private study, for the benefit of public institutions such as libraries and archives, for the purposes of news reporting, for quotations, for use by people with disabilities, for public security uses and for uses in administrative and judicial proceedings. Member states cannot go beyond this list: further exceptions can only be recognised at E.U. level. Thus while the fair use defence allows U.S. copyright law to absorb high-tech developments as they unfold and to “think on its feet”, as it were, E.U. member states are left to “catch up after the event”.⁴² It is claimed by some that the total legislative response time in the E.U. to a new technological development may well exceed ten years.⁴³ This is not surprising given the range of legal systems involved. Even at national level, legislation can never keep pace with changes, even incremental, in technology. Think back to the 1970s/1980s, when the recording of T.V. programmes became popular with the rise of the video recorder. In 1984, the U.S. Supreme Court decided this practice came within fair use,⁴⁴ but it was not until 1988 that U.K. copyright legislation responded and it was later still in 2000 when Irish legislation recognised the exception, though the practice had been ubiquitous for decades.⁴⁵

In almost all cases, the exceptions permitted under E.U. law are limited to non-commercial use and are subject to the requirement that the rightholder receive fair compensation. ‘Fair compensation’ is calculated on the basis of the criterion of the harm caused to the rightholder.⁴⁶ The private copying exception is restricted in both these ways, although the possibility of change is being discussed as part of the Digital Agenda for Europe.⁴⁷ A mediator appointed by the Commission to lead the

awarded under the 2000 Act. A claim for such damages under the Copyright Act 1963 failed in *Allibert S.A. v. James O'Connor & Ors* (Unreported, High Court, Costello J, 18 December 1981).

⁴¹ Other jurisdictions with a fair use regime include the Philippines, see section 185 of the Intellectual Property Code of the Philippines (Republic Act No 8293) (1997); and South Korea, see the Copyright Act of South Korea, as revised in 2006.

⁴² Dnes A, *A Law and Economics Analysis of Fair Use Differences Comparing the US and UK*, Report for the Review of IP and Growth, 2011 at page 27.

⁴³ Mirielle van Eechoud a.o., *Harmonizing European Copyright Law: The Challenges of Better Lawmaking*, Kluwer Law International, 2009 at page 298, cited by Hugenholtz & Senftleben, *Fair Use in Europe. In Search of Flexibilities*, November 2011.

⁴⁴ *Sony Corp of America v. Universal City Studios Inc* 464 U.S. 417 (1984), often referred to as ‘the Betamax case’. The U.S. Supreme Court reaffirmed the finding of the District Court that even when an entire copyrighted programme was recorded, the copying was fair use as there was no accompanying reduction in the market for the plaintiff’s original work. The Supreme Court stated that “a use that has no demonstrable effect upon the potential market for, or the value of, the copyrighted work need not be prohibited in order to protect the author’s incentive to create. The prohibition of such non-commercial uses would merely inhibit access to ideas without any countervailing benefit.”

⁴⁵ As to the U.K., see the Copyright, Designs and Patents Act 1988, section 70; and as to Ireland, see the Copyright and Related Rights Act 2000, section 101(2).

⁴⁶ Case-467/08 *Padawan SL v. Sociedad General de Autores y Editores de Espana* [2010] E.C.R. I-10055.

⁴⁷ The Digital Agenda for Europe aims to reboot Europe’s economy and help Europe’s citizens and business get the most out of digital technologies. The Digital Agenda was launched in May 2010. A review published in December 2012 identified seven key areas for growth, one of which was an update to the E.U.’s Copyright Framework.

process of stakeholder dialogue on private copying levies, Mr. Antonio Vitorino, has stated that copies made by consumers for their private purposes in the context of a service that has been licensed do not cause any harm that would require additional remuneration in the form of levies.⁴⁸ Mr. Vitorino called for the private copying regime to be clarified to this extent. A person paying for a download of a song expects the payment to cover not only the first download of that song onto his personal computer, but to also cover the subsequent copying of that song to his iPod, mobile phone, MP3 player and whatever technology the future will bring. This is known as format-shifting. Consumers cannot be expected to pay on the double. The European Economic and Social Committee has expressed the view that private copying is an integral part of fair use which should be recognised as a right of a legal licence holder under the concept of fair use. While the various institutions of the E.U. seek to grapple with the legitimacy or otherwise of format-shifting, by engaging in mediation and opinion writing, a process which may take years, in the U.S. consumers can be reasonably confident that copying a CD onto an MP3 player comes within the fair use doctrine.⁴⁹

That is the beauty of fair use: it is flexible, adaptable and it keeps the law in line with the changing behaviours and expectations of consumers. While it may be criticised for being unpredictable, fair use has many attractions.⁵⁰ An obvious one is that it helps to foster innovation and creativity. The founders of Google are reported to have said that they could never have started their business in Britain in the 1990s as there was no support there at the time for a search engine based on caching. By contrast, the U.S. system offered the comfort that, in the event of a challenge to its business model, an argument based on fair use might succeed. In 2006, Google successfully argued that its copying of cached links was a transformative use, which added something new and did not merely supersede the original work.⁵¹ Fair use of copyright works has also been linked to enhanced growth by “private copying” industries.⁵²

Copyright law in Ireland and the U.K. allows for what is known as a ‘fair dealing’ defence. Many other common law jurisdictions also provide for fair dealing, and in some cases the defence might be said to be analogous to the doctrine of fair use.⁵³ In

⁴⁸ Recommendations resulting from the Mediation on Private Copying and Reprographic Levies, 31 January 2013.

⁴⁹ In *Recording Industry Association of America v. Diamond Multimedia Systems Inc*, 180 F. 3d 1072, (9th Cir. 1999), the Court of Appeals refused to grant an injunction to restrain the manufacture and distribution of the Rio, a digital device manufactured by Diamond that allowed users to download MP3 audio files from a computer and to listen to them elsewhere. The Court held that the Rio’s operation was entirely consistent with the main purpose of the Audio Digital Home Recording Act 1992, i.e. the facilitation of personal use. It held that the Rio merely made copies in order to render portable, or “space shift”, those files that already resided on a user’s hard drive. Such copying, the Court said, was paradigmatic non-commercial personal use, entirely consistent with the purposes of the Act.

⁵⁰ As noted at para. 5.12 of *Digital Opportunity: A Review of Intellectual Property and Growth* (2011), commonly known as ‘the Hargreaves Review’ (see text and footnote at 55): “The US approach enables judges to take a view as to whether emerging activities in relation to copyright works should legitimately fall within the scope of copyright protection or not. Fair use provides a legal mechanism that can rule a new technology or application of technology (like shifting music from a CD to a personal computer) as legitimate and not needing to be regulated, so opening the way to a market for products and services which use it. It has been suggested that this is one of the factors creating a positive environment in the US for innovation and investment in innovation. Fair Use offers a zone for trial and error, for bolder risk taking, with the courts providing a backstop to adjudicate objections from rights holders if innovators have trespassed too far upon their rights.”

⁵¹ *Field v. Google Inc.*, 412 F. Supp. 2d 1106 (D. Nev. 2006).

⁵² Roya Ghafele and Benjamin Gilbert, *The Economic Value of Fair Use in Copyright Law: Counterfactual Impact Analysis of Fair Use Policy on Private Copying Technology and Copyright Markets in Singapore*, 2012, available at http://mpra.ub.uni-muenchen.de/41664/1/MPRA_paper_41664.pdf. The study found the positive impacts for growth from the introduction of U.S.-style fair use in Singapore had little or no adverse impact on creative industries.

⁵³ In Singapore, the Copyright Act 1987 sets out, under the heading of fair dealing, what is effectively a fair use defence. In India, the Copyright (Amendment) Act 2012 is said to have introduced an expanded fair dealing exception that goes a very long way down the road to a fair use doctrine (see the Irish Copyright Review Committee, *Copyright and Innovation: A Consultation Paper*, at page 114). In Canada, the Copyright Modernization Act 2012 expanded fair dealing for the purposes of education, parody and

Ireland and the U.K., however, the fair dealing defence is narrow in scope and cannot really be said to at all resemble fair use. It is expressly limited to acts permitted for research or private study, criticism or review, and the reporting of current events.⁵⁴ Further, neither Ireland nor the U.K. has implemented the full range of exceptions set out in the Copyright Directive. It is in this context that concern has been expressed that the limited scope and range of exceptions in Irish and U.K. copyright legislation might be a barrier to innovation.

In November 2010, the U.K. Prime Minister, David Cameron commissioned Professor Ian Hargreaves to consider whether the U.K.'s intellectual property framework was sufficiently well-designed to promote innovation and growth in the U.K. economy.⁵⁵ Professor Hargreaves was specifically asked to consider whether the doctrine of fair use would be beneficial in the U.K. Submissions were invited. Responses from established U.K. business were in the main “*implacably hostile*” to adopting a fair use defence. The reasons cited were that it would bring massive legal uncertainty because of its roots in U.S. case law; would result in an U.S. style proliferation of high cost litigation; and would create yet more confusion for suppliers and purchasers of copyright goods. On the other side, it was recognised that copyright needs to accommodate some unlicensed copying that is considered to be fair in the ordinary sense of the word. It was said that the U.K. Government should firmly resist over-regulation of activities which do not prejudice the central objective of copyright, namely the provision of incentives to creators. Advice received from government lawyers was to the effect that significant difficulties would arise in any attempt to transpose U.S. style fair use into European law. The Review looked at alternatives. It concluded that the U.K. could achieve many of the benefits of the U.S. regime by taking up the full range of copyright exceptions permitted under E.U. law, including an exception which permits copying by a lawful owner of an original copy.⁵⁶ Exceptions, it was said, should be ‘future-proofed’, that is to say, implemented in a technology neutral way so that they are capable of adapting to subsequent waves of change, and mandatory, so that copyright is not dictated by contract. In its response to the Review, the U.K. Government indicated it would introduce legislation in 2013 to provide for these new exceptions.⁵⁷ The Review also recommended that the U.K. Government press at E.U. level for the introduction of an exception allowing uses of a work enabled by technology which do not directly trade on the underlying creative and expressive purpose of the work, so-called “non-consumptive” uses. This, it was said, would encompass uses of copyright works where copying is really only carried out as part of the way the technology works. The Review identified the alternative as a poor second best, namely a policy process whereby every beneficial new copying application of digital technology waits years for a bespoke legal exception. The U.K. Government has stated that it will aim to secure further flexibilities at E.U. level that enable greater adaptability to new technologies;

satire. The courts in Canada interpret the fair dealing provisions broadly, moving it more towards a fair use approach: see *Alberta (Education) v. Canadian Copyright Licensing Agency (Access Copyright)* (2012) S.C.C. 37, where the Supreme Court held that photocopying parts of textbooks for classes was a fair dealing for research; *Society of Composers, Authors and Music Publishers of Canada v. Bell Canada* (2012) S.C.C. 36, where the Supreme Court held that the provision by online music distributors of free previews of musical works, lasting 30 to 90 seconds, to the public was a fair dealing for research. The Court took the view that previews were reasonably necessary to help consumers research what to purchase.

⁵⁴ Sections 50 and 51 of the Irish Copyright and Related Rights Act 2000; Sections 29 and 30 of the U.K. Copyright, Designs and Patents Act 1988.

⁵⁵ *Digital Opportunity: A Review of Intellectual Property and Growth*, an Independent Report by Professor Ian Hargreaves, May 2011. Available at: <http://www.ipo.gov.uk/ipreview-finalreport.pdf>

⁵⁶ See generally Hugenholtz & Senftleben, see footnote 43 above.

⁵⁷ The new legislation is to include an exception for private copying. People will be permitted to copy content they have bought onto any medium or device that they own, strictly for their own personal use (such as transferring their music collection from CD to iPod). This will not allow sharing copies with others, but it will allow consumers to copy material to and from private online cloud storage. The U.K. Government has rejected any system of levies to be attached to copying devices as currently exists in many other European countries. The Government considers that levies or other compensation are neither required nor desirable in the context of a narrow provision that causes minimal harm.

will support a review of relevant E.U. legislation to this end; and will engage in dialogue with European partners to identify how this can best be achieved.⁵⁸

A Copyright Review Committee established by the Irish Government is considering, among other things, the feasibility of moving towards a fair use style doctrine. As in the U.K., the Committee received submissions and much the same arguments were recited: we will not recount them here. In a Consultation Paper published in February 2012, the Review Committee expressed the view, *albeit* on a preliminary basis, that E.U. law offers a great deal of scope to member states to adopt a fair use doctrine as a matter of national law. The Committee considered that there is nothing in the E.U. Directives or the case law of the Court of Justice of the European Union to suggest that copyright is inviolable and must be absolutely protected. Rather, E.U. case law increasingly suggests that protection of intellectual property rights must be balanced against the protection of other fundamental rights. Fair use is a means of protecting other fundamental rights (*e.g.* the freedom of information, the freedom of expression, the freedom to provide services), and the Copyright Directive, the Committee said, should therefore be interpreted consistently with it. Further, it noted that the Copyright Directive does not harmonise the definition of copyright at national law and that it is possible to view fair use as a doctrine that defines the ambit of copyrightability, as opposed to infringement. The Review Committee acknowledged, however, that while E.U. law does not necessarily preclude fair use at national level, it certainly does not mandate it. The matter is in reality an issue of politics and policy. The Review Committee tentatively offered a draft 'fair use' clause for Ireland, which it tied as closely as possible to the existing exceptions. It suggested that the exceptions should be exhausted before any claim of fair use can be considered and that an Irish fair use clause should be based not just on the four U.S. criteria, but also on Article 9(2) of the Berne Convention and on the experience of other countries which have adopted a similar doctrine.⁵⁹ The Committee is expected to publish its final report in March of this year.

The authors also understand that the Dutch Government is interested in introducing a fair use doctrine in Dutch law, and that it has confirmed its commitment to initiating a discussion on this matter at European level.⁶⁰

A case to watch

In October of last year, the United States District Court of the Southern District of New York heard oral argument in a copyright infringement suit filed by Capitol Records LLC against ReDigi Inc.⁶¹ ReDigi describes itself as the '*world's first pre-owned digital marketplace*.'⁶² It offers users a platform to stream, buy and sell legally acquired digital media. This is how it says it operates:

⁵⁸ See *The Government Response to the Hargreaves Review of Intellectual Property and Growth*, at page 8. Available at: <http://www.ipso.gov.uk/ipresponse-full.pdf>

⁵⁹ Article 9(2) of the Berne Convention states that "*It shall be a matter for legislation in the countries of the Union to permit the reproduction of [literary and artistic] works in certain special cases, provided that such reproduction does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author.*"

⁶⁰ Kamerstuk (Parliamentary Record) 21501-34, no. 155. See further at: <http://www.rijksoverheid.nl/onderwerpen/ict/legaal-downloaden-en-fair-use> - "*The cabinet wants to include a fair use exception in the law that stimulates reproduction for non-commercial purposes. This is to anticipate the discussion in the European Union on fair use exceptions in the European guideline in copyright. Such a provision is missing right now.*" (Translation taken from Google's submissions to the Irish Copyright Review Committee). In February 2012, the Australian Attorney-General requested the Australian Law Reform Commission to consider whether Australia's Copyright Act should be amended to include a broader "fair use" style exception. The Australian Law Reform Commission is expected to issue a Discussion Paper in May/June 2013 and the Attorney-General is to deliver a Final Report by 30 November 2013.

⁶¹ Case 12 CIV 0095 RJS.

⁶² It might be noted here that on 29 January 2013, Amazon secured a patent to create a digital resale marketplace for used content, including used e-books and audio downloads.

First, ReDigi ensures that a user who desires to store or sell a song on ReDigi legally owns the original downloaded copy of the song. Users cannot sell something that they do not own...

... our patent pending technology can accurately verify the legal eligibility of a digital music file before it is allowed to be transferred to the Cloud for storage or listed for sale on the Marketplace. Specifically, ReDigi's Verification Engine analyzes the user's music library and creates a list of all eligible, non-infringing song files so the user can easily chose which songs he/she would like to transfer to ReDigi's Cloud to store and/or sell.

Upon transfer, ReDigi systematically removes any personal use copies of the file from the user's computer and synced devices so that the original, or non-infringing "copy" is the only one that exists, safely stored in the user's Cloud space.

If a user then chooses to sell one of his/her songs on the Marketplace, our patent-pending Atomic Transaction technology transfers the music file and corresponding license from the seller to the buyer, so the new owner holds title to the track, and the seller no longer has access to it...

If a copy of a previously sold file reappears on a seller's computer or synced device, and the seller fails to delete it after notice from ReDigi, the seller's account with ReDigi may be suspended or terminated...⁶³

Capitol Records, the well-known record company, complains that ReDigi's entire service and business model is "predicated upon making and assisting users in making multiple, unauthorized copies, distribution, and performances of sound recordings" owned by it and others.⁶⁴ It says that the track "stored" in and offered to consumers from ReDigi's "cloud" is necessarily a copy of the user's original file; a second copy is made when a ReDigi sale is consummated; and the user does not "sell" an original track, but merely agrees to its deletion after it has been copied.⁶⁵ Other complaints are also put forward. ReDigi denies any copies are made and is relying on various defences, including the fair use doctrine, the first sale doctrine and the essential step defence.⁶⁶

The case has attracted widespread media coverage, with predictions that a judgment in ReDigi's favour could transform the entire media industry. Commentators suggest that if the case was being heard in Europe, the *Oracle* judgment would support ReDigi's case.⁶⁷ The authors would not like to intervene with their own views, but await the decision of the New York courts with interest.

Conclusion

European law, hidebound as it is by the goal of predictability, defines everything in such detail that it becomes almost self-defeating. A detailed read of the *Premier League* case perhaps establishes that a principle-based copyright regime or even a principle-based defence might do better. Most recently, courts in Europe have grappled with the introduction of defences based on fundamental rights into

⁶³ <https://www.redigi.com/legal>.

⁶⁴ Complaint against ReDigi, filed on 6 January 2012 at para. 19.

⁶⁵ Above, at paras. 21 to 25.

⁶⁶ ReDigi's answer to complaint, filed on 19 January 2012.

⁶⁷ See Redigi could defend against copyright infringement claims if EMI case was heard in U.K., says expert: <http://www.out-law.com/en/articles/2012/october/redigi-could-defend-against-copyright-infringement-claims-if-emi-case-was-heard-in-uk-says-expert/>; The resale of digital music and video files in the E.U. may not be found to infringe copyright, says expert: <http://www.out-law.com/en/articles/2013/january/the-re-sale-of-digital-music-and-video-files-in-the-eu-may-not-be-found-to-infringe-copyright-says-expert/>.

copyright protection.⁶⁸ In the United States it might be puzzling that the entitlement to run a business, to privacy, to communicate, or even to anonymity could trump the entitlement of return and control of an intellectual property owner. Yet, that is what courts in Europe now deal with. Most recently, a summary was attempted by the High Court in Ireland as to the conflict that such rights pose in the context of an argument that the Internet justifies differing rules:

The law does not, however, set intellectual property rights at nought because of the involvement of the internet. In due course, clarity may be brought to the law by a comprehensive ruling where an appropriate case arises before the Court of Justice of the European Union. In the meanwhile, the nature of the injunction sought; the limitation to and the duration of any monitoring; the breadth or narrowness of the scope of any order; the nature of the equipment to be used; the potential for the interference of that equipment with the proper use of the existing systems of the intermediary; the balance of the burden between the parties as to equipment, personnel and cost; the intrusiveness of any remedy into legitimate privacy and the entitlement to communicate; and any potential data protection impingements, together constitute the main factors in a court determining where the proportionality of an injunctive remedy to the mischief of the improper use of intellectual property online is to be struck or whether, on the other hand, an injunction application is to be refused, despite legal compliance, on discretionary grounds.⁶⁹

Obviously, competing rights are nothing new to the law. Few laws are absolute. But, in Europe we tend in that direction. Insofar as a defence is established for copyright, some may argue that it cannot but be applicable to other intellectual property rights. An instance would be the apparently different approach of the European Court to fundamental rights defences where trade marks are involved.⁷⁰ Every court seeks a just result based on merits. Recognising in legislation that a legal scheme which allows for reasonable use, on the purchase of copyright material, is perhaps a simpler way of enabling merit to dictate a fair result.

⁶⁸ See, for example, Case C-360/10 *Belgische Vereniging van Auteurs, Componisten en Uitgevers CVBA (SABAM) v. Netlog NV*.

⁶⁹ *EMI Records Ireland Ltd & Ors v The Data Protection Commissioner* [2012] I.E.H.C. 264, (Unreported, High Court, Charleton J., 27 June 2012) at para. 8.10.

⁷⁰ Case C-324/09 *L'Oreal S.A. & Ors v eBay International A.G. & Ors*, [2011] E.C.R. I-0000.