

# Client Alert

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## EU Copyright: No Resale of Digital Content Except for Software? *How Does the European Court of Justice Decision on Exhaustion of the Distribution Right upon First Sale Impact the Resale of Digital Copies?*

By Kristina Ehle

The European Court of Justice (ECJ) has decided that the rule of exhaustion of the distribution right upon first sale (in the U.S. known as the “first sale” doctrine) does *not apply* to post first-sale alterations to the *physical medium* embodying the work *if* such alterations constitute a *new reproduction* of the work (here: the transfer of a painting from paper poster onto a canvas). Consequently, such subsequent alterations require the consent of the owner of the reproduction right to the work.

The ECJ expressly states that exhaustion of the distribution right upon first sale under the EU Copyright Directive applies to the *tangible object* into which a protected work is incorporated. Thus, the first sale of *intangible digital copies* of works will likely *not* exhaust the distribution right to such copies. This means that the *resale* of digital music, film, and e-book files duly purchased by way of download from the Internet will likely be considered as *copyright infringement* if not authorized by the copyright holders.

### WHAT DOES EXHAUSTION OF THE DISTRIBUTION RIGHT MEAN?

When buying a video on a DVD, a hardcover book or an art painting in the EU that was first sold in the EU with the consent of the copyright holder of such work, one can resell such DVD, book, or painting to any other person in the EU later on. The reseller does not need the copyright holder’s consent for such resale. This is possible because Art. 4 (2) of the EU Copyright Directive sets forth that the first sale in the EU of a copy, or of the original, of a copyrighted work by the copyright holder or with his/her consent causes exhaustion of the distribution right of the copyright holder. The copyright holder can neither prohibit such resale nor ask the reseller or purchaser to pay additional compensation.

### THE CASE

In the case, Allposters, a Dutch company, bought art posters depicting copyrighted paintings of famous artists that were sold in the EU with the consent of the respective copyright holders. Allposters transferred the image of the painting from the purchased paper poster onto a canvas by a chemical process so that the image no longer appeared on the paper poster but only on the canvas. Thus, there was still only one reproduction of the painting – only that it was on a canvas medium instead of on the original paper poster. The image of the painting itself was *not* altered. The canvases looked much better and bore a much closer resemblance to the original painting than the paper posters did, and Allposters offered such canvases for sale on its websites. Allposters argued that (i) alterations made to a sold copy *after* the distribution right to such copy was exhausted had *no impact* on the previous exhaustion and (ii) the transfer of the image from paper to canvas did not constitute a reproduction of the work, as the image was not duplicated.

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## THE JUDGMENT

In its decision of January, 22, 2015, the ECJ states that the exhaustion of the distribution right applies to the *physical medium* in which the work is embodied (here: the paper poster) and that alterations of the physical medium which result in a *new object* (here: the replacement of a paper poster by a canvas) constitutes a *new reproduction of the work* - which requires the authorization of the holder of the reproduction right. The ECJ therefore decides that “*the rule of exhaustion of the distribution right... does not apply in a situation where a reproduction of a protected work, after having been marketed in the European Union with the copyright holder’s consent, has undergone an alteration of its medium, such as the transfer of that reproduction from a paper poster onto a canvas, and is placed on the market again in its new form.*” (<http://curia.europa.eu/juris/document>)

## EFFECT ON THE RESALE OF DOWNLOADED COPIES?

The, perhaps, even more interesting aspect of this ECJ judgment is its likely impact on the resale of digital copies of copyrighted works purchased by way of download from the Internet:

In the *UsedSoft* Judgment of July 3, 2012 (see <http://curia.europa.eu/juris/document>), the ECJ decided that the first sale of an *intangible* copy of a computer program by way of download from the Internet onto a buyer’s device with the copyright holder’s consent causes exhaustion of the distribution right to such copy. As a consequence, the buyer of such intangible copy can resell such “used” copy to third parties *without* the copyright holder’s consent. However, this judgment was based on the interpretation of the EU Directive on the protection of computer programs (Directive 2009/24/EC) and *not* on the Copyright Directive.

In the *Allposters* decision, the ECJ clearly states that “*exhaustion of the distribution right applies to the tangible object into which a protected work or its copy is incorporated.*” For this purpose, it explicitly relies on (i) the wording of recital 28 of the Copyright Directive, according to which copyright “*protection under this Directive includes the exclusive right to control distribution of the work incorporated in a tangible article*” and (ii) the agreed statement concerning Articles 6 and 7 of the WIPO Copyright Treaty (1996), according to which “*the expressions ‘copies’ and ‘original and copies’ being subject to the right of distribution ... refer exclusively to fixed copies that can be put into circulation as tangible objects.*” In the *Allposters* case, the ECJ applies precisely those arguments that it had previously rejected as not being applicable in the *UsedSoft* case. Considering this argumentation, it would appear to be difficult for the ECJ in future cases to turn around and decide that exhaustion of the distribution right under the Copyright Directive also applies to the first sale of intangible digital copies.

Therefore, the underlying arguments of the ECJ in the *Allposters* case are a strong indication that with regard to literary and artistic works *other than software* (e.g., music, literature, film, art), the ECJ will likely *not apply* the rule of exhaustion of the distribution right to the first sale of intangible digital copies of such works by way of download from the Internet (e.g., music, film and e-book files). This would mean that, except for the resale of downloaded software copies, the resale of downloaded copies of such works will continue to require the consent of the copyright holder in each case.

## WHAT ABOUT ALTERATIONS THAT ARE NOT NEW REPRODUCTIONS?

The ECJ did *not* rule on the impact of subsequent alterations of sold physical copies of a work which *did not qualify* as new reproductions of that work. As regards alterations of a copyrighted *work itself*, one has to look at

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the applicable national copyright law of the EU countries, because the exclusive right of authors to authorize adaptations, arrangements and other alterations of their works is not granted by the EU Copyright Directive, but by Article 12 of the Berne Convention as implemented into national law of those countries which are party to this multilateral copyright treaty (including all EU Member States). This alteration right to the work is *not* impacted by the exhaustion of the distribution right upon first sale. This means that subsequent alterations of the sold work itself require the copyright holder's consent (e.g. changing a painting of an artist after purchase). However, depending on the national copyright law of the respective country, the mere alteration of the sold *physical medium* embodying the work can also be qualified as an alteration of the work itself, if such alteration puts the work into a *different context*, e.g., if the purchaser of a painting changes its frame to a very different frame containing patterns or images that modifies the context of the work (so decided by the German Federal Supreme Court in 2002, I ZR 304/99 <http://juris.bundesgerichtshof.de/cgi-bin/rechtsprechung/document>).

### Contact:

**Kristina Ehle**

+49 (0)30 72622-1346

[kehle@mofo.com](mailto:kehle@mofo.com)

**Alistair Maughan**

+44 (20) 79204066

[amaughan@mofo.com](mailto:amaughan@mofo.com)

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