**CRi**                                             # Articles

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# Exhaustion and Software Resale Rights

## A comparison between the European exhaustion doctrine and the U.S. first sale doctrine in the light of recent case law

*The previous year saw some interesting developments with regard to the resale of (used) software licenses. In the U.S. the position of software vendors to control distribution seems to be strengthened. In Europe, on the other hand, the position of software vendors might be weakened. A Dutch court found that a purchaser of used software does not need a license from the software vendor. In Germany, the highest civil court referred questions to the CJEU with respect to resale of downloaded software. Market players will have to cope with diverging approaches in their markets and ongoing legal uncertainty.*

## I. Introduction

Software licenses can be expensive. In the current economic climate software users seek to cut costs. Purchasing used software[1] may save costs. Software licenses can also be valuable assets. Trustees in charge of bankruptcy proceedings are increasingly exploring the possibilities to find cash by selling software used by the bankrupt company. There are specialist companies selling second hand business software licenses.[2] The trade in used software raises interesting and important legal questions, such as to the legality of the trade itself and the legality of the use of this software by end-users.

Most software is copyright protected. Under copyright law the copyright owner in principle has the exclusive right to distribute his software and to determine who may use the software and under what conditions. Based on the exhaustion doctrine in Europe and the first sale doctrine in the U.S., further sale of software may be allowed without consent of the software vendor being necessary

Case law in Europe and the U.S. is divided on the application of these doctrines. Recent cases indicate that software vendors in the U.S. have a stronger position to oppose the application of the first sale doctrine than in Europe to oppose the application of the exhaustion doctrine. Another difference between Europe and the U.S. is that software vendors in Europe may be confronted with end-users claiming protection from the European principle of statutory software license. At least one court has

honored an appeal of an end-user on this principle.[3] The court ruled that a purchaser of used software may use the software for "normal use" without an end user license agreement with the software vendor being necessary.

These recent developments give reason to discuss the status of the exhaustion doctrine in Europe and the first sale doctrine in the U.S.

## II. Scarce Case Law

Within several countries the resale of software has lead to a number of court cases, most notably in Germany and, to a lesser extent, the U.S. On the other hand in some other countries there is hardly any relevant case law, such as in the U.K.[4] Almost all the case law deals with the right to resell software and does not address the user rights of a purchaser of used software.

The limited number of reported cases may be due to a number of reasons. First of all, probably most transfers of software will remain unnoticed by software vendors.[5] There seem to be only few professional resellers of used software. Obviously the professional resellers have attracted the attention of software vendors and some have been sued, especially in Germany. It is to be expected, however, that most transfers of software licenses will be conducted on an ad hoc basis and not in the course of a professional resale business.

Besides, most users will probably prefer to use software with the consent of the software vendor, for instance to be entitled to updates and support. Some suppliers have responded by offering programs that allow end-users to register used software and to benefit from the support scheme.[6] Finally, experience shows that in many matters where end-users allegedly have infringed the copyrights or license terms, an amicable settlement is reached.

The fact that there is hardly any case law on the contents of user rights, furthermore may be attributed to the fact that installation of software normally requires acceptance of the software vendor's click wrap or shrink wrap

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1  With "used software" we mean software that was purchased by a user for own use and that was subsequently transferred to another user.
2  Companies such as usedSoft *(www.usedsoft.com)*, discount-licensing.com *(www.discount-licensing.com)* or susensoftware *(www.susensoftware.de)*, selling various business software products.
3  Court of Dordrecht, 11 August 2010, LJN: BN3863 (I.E. *Beheer B.V. v. IV Bouw en Industrie B.V.*), discussed in more detail hereinafter.
4  The authors would like to thank *Jeremy Morton* of law firm Fasken Martineau for giving a useful insight in the legal situation in the U.K. with respect to exhaustion and software.
5  Such as the sale of a PC containing software or use of software by group companies.
6  E.g. discount-licensing.com claims that it does not rely on the exhaustion doctrine and that its resale of Microsoft licenses is approved of by Microsoft according to Microsoft's volume license agreement transfer provision *(www.discount-licensing.com/faqs.php)*.

style end user license agreement ("EULA")[7], which most users will probably adhere to.[8] In view of users entering into a valid EULA, the vendor will have no legal action against the users.

## III. The European and U.S. Legal Frameworks

Before discussing case law, the respective background of the exhaustion doctrine and the first sale doctrine has to be explored in more detail.

### 1. The European Framework

#### a) Introduction

In essence the European Software Directive[9] gives a software vendor the exclusive right to control the distribution of software (selling licenses) and to control the use of software (such as running and operating software). The doctrine of exhaustion relates to the ability to control the distribution of software and not to the ability to control the use of software. Separate from the exhaustion principle, the Software Directive provides for a statutory right for the legitimate user to use the software, without further license from the software vendor being necessary. One of the key questions is how the concept of exhaustion and the concept of statutory license align with each other.

#### b) Exhaustion

According to the principle of exhaustion, once a copy of a work is sold or distributed within the European Union with the consent of the right holder, the latter may not control or prevent further distribution of that copy. The principle of exhaustion of copyright was developed by European case law from 1971 onwards.[10] On the one hand, it was established that goods should freely circulate within Europe, and on the other hand, it was found that fruits of creativity should be awarded with a certain monopoly right to prevent others dealing freely with their creation.

Although the principle of exhaustion is a principle that applies within the field of copyright in general, it was first drawn up in the Software Directive. At the time when the Software Directive was to be drafted in the late eighties, copyright was divergent in the EU. This divergence had negative effects on the free movement of goods within the EU and on the efficient development of the European software industry. Applying copyright protection to software was challenging, not only because of this divergence, but also because of the functional nature of software, which could hardly be regarded as a work that is to be protected by copyright. In its Proposal, however, the European Commission focused on the similarities between literary works and software, and emphasized that a computer program has all the characteristics of a literary work.[11] The European Commission thus firstly adopted that software is to be protected by copyright as a work within the meaning of the Berne Convention and considered:

> "Whereas the Community's legal framework on the protection of computer programs can accordingly in the first instance be limited to establishing that Member States should accord protection to computer programs under copyright law as literary works and, further, to establishing who and what should be protected, the exclusive rights on which protected persons should be able to rely in order to authorize or prohibit certain acts and for how long the protection should apply;"[12]

Although software is protected by copyright, the nature of software demands a more specific regime. Under a 'regular' copyright, the mere use of a copy of a work (e.g. by reading a book) is usually not relevant; commercially the primary exclusive rights for the copyright proprietor in this regard are the rights to reproduce and to distribute the work copies. The Software Directive prescribes that a technical reproduction, and therefore any use of the software, falls within the scope of the exclusive right of the copyright proprietor,[13] notwithstanding several exceptions, to be found in article 4(2), 5 and 6 of the Software Directive.

The exception of article 4(2) of the Software Directive codifies the principle of exhaustion. It states:

> "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."

The exhaustion principle which was later codified in article 4(2) of the Copyright Directive[14], however, prescribes:

> "The distribution right shall not be exhausted within the Community in respect of the original or copies of the work, except where the first sale or other transfer of ownership in the Community of that object is made by the right holder or with his consent."

From a traditional point of view – albeit disputed, see under chapter IV. 1. b below – the exhaustion doctrine only applies in relation to the purchase of physical data carriers on which the software is stored.[15] In this respect the European framework may differ from the U.S.

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7  A software license agreement between the end user and software vendor that is meant to apply by the end user opening the shrink wrap agreement (shrink wrap license) or by the end user clicking on the "I agree"-button when downloading, installing and/or using the software (click wrap license).

8  In this article we will not go into the question whether such license agreements constitute binding agreements. Generally spoken U.S. Courts are of the opinion that such EULA will come into effect (at least the click wrap type), whilst European Courts have taken mixed positions. For instance reference is made to Court of Amsterdam of 24 May 1995 (*Coss Holland v. TM Data Nederland*), in which the court ruled that a shrink wrap type EULA had no binding effect, because it had not been referred to nor presented to purchaser at the moment of purchase and therefore did not form part of the purchase agreement.

9  Directive 91/250/EEC of 14 May 1991, as amended (now Directive 2009/24/EC of 23 April 2009).

10  See for example CJEU 8 June 1971, Deutsche Grammophone/Metro, CJEU 20 January 1981, Membran/GEMA, CJEU 22 January 1981, Dansk Supermarked/Imerco, CJEU 9 February 1982, Polydor/Harlequin.

11  EC Proposal for a council directive on the Legal protection of computer programs, Revised version, 17 march 1989, p. 18.

12  Directive 91/250/EEC of 14 May 1991, recital 6.

13  Article 4 (1)(a) Software Directive.

14  Directive 2001/29/EC of 22 May 2001; the same wording is used in Article 9(2) of Directive 92/100/EEC of 19 November 1992 on rental right and lending right and on certain rights related to copyright in the field of intellectual property.

15  For instance see *H. Struik*, *P.C. van Schelven* and *W.A.J. Hoorneman*, *Softwarerecht*, Kluwer: Deventer 2010, p. 140.

framework (also discussed under chapter IV below), where the first sale doctrine for software seems to relate to the purchase of software itself and not to the purchase of the data carrier containing the software. This means that restrictive terms in an EULA may be taken into account by a U.S. court to determine whether the purchase of software qualifies as a sale, and therefore is subject to the first sale doctrine, or as a license, not being subjected to the first sale doctrine. In Europe the restrictive terms in an EULA will in principle have no impact on the question whether the purchase of software qualifies as a sale transaction or not.[16]

The link to physical data carriers means that according to this traditional view exhaustion under the Software Directive would not apply to downloaded software because no physical data carriers are transferred. This view was published by the European Commission in a report of April 2000 stating that community exhaustion only applies to the sale of copies, i.e., goods, whereas supply through on-line services does not entail exhaustion.[17] Similarly, the Copyright Directive of May 2001 also seems to distinguish between the off-line and the on-line distribution of a copy of a computer program. Recital 29 of the Copyright Directive states:

> "The question of exhaustion does not arise in the case of services and on-line services in particular. This also applies with regard to a material copy of a work or other subject matter made by a user of such a service with the consent of the right holder. Therefore, the same applies to rental and lending of the original and copies of works or other subject matter, which are services by nature. Unlike CDROM or CD-I, where the intellectual property is incorporated in a material medium, namely an item of goods, every on-line service is in fact an act which should be subject to authorization where the copyright or related right so provides."

This traditional view, however, was fiercely criticized by a number of legal commentators.[18] Based on this dispute in legal literature the German Federal Supreme Court very recently has referred questions to the Court of Justice of the European Union (CJEU), asking clarification whether the exhaustion doctrine also applies to downloaded software[19] (see the discussion under IV.1.b below for details).

### c) Statutory License to Use the Software

The concept of exhaustion does not address the actual use of "second hand" software. In that respect article 5(1) of the Software Directive may be relevant. This provision grants the "lawful acquirer" of software a statutory license right:[20] In the absence of specific con-

tractual provisions, the acts necessary to run a software program:

> "shall not require authorization by the rightholder where they are necessary for the use of the computer program by the lawful acquirer in accordance with its intended purpose, including for error correction."

The expression "lawful acquirer" is not defined in the Software Directive. In its Report, the Commission communicated its understanding of a "lawful acquirer" as a purchaser, licensee, renter or a person authorized to use the program on behalf of one of the aforementioned.[21]

The key question is whether somebody who acquires used software from a reseller can be regarded to be a "lawful acquirer". If so, used software can be used without the need to enter into an EULA. As discussed under IV.2. below in more detail, a Dutch court recently ruled that an acquirer of used software is indeed a lawful acquirer and therefore does not need an EULA to use the software. However, another Dutch court had previously ruled otherwise. The German Federal Supreme Court was not sufficiently sure how to answer this question and therefore referred it to the CJEU.[22]

The European concept of a statutory license resembles the U.S. concept of the essential step defence (see under III.2. hereinafter).

### 2. Legal Framework in the United States

In the U.S.[23] a similar principle like the European exhaustion rule applies: the first sale doctrine. Further to sec. 109(a) of the U.S. Copyright Act, the first sale doctrine provides that a person who purchases a legally produced copyrighted work may "sell or otherwise dispose" the work as he sees fit, subject to conditions and exceptions.

The first sale doctrine was codified in 1976, "to give effect to the early common law rule against restraints on the alienation of tangible property", as stated in the legislative history of sec. 109 U.S. Copyright Code.[24] The congressional reports refer to the ability of the owner of a material copy to dispose of that copy as he sees fit.[25] The term 'first sale doctrine' may be somewhat confusing. It dates back to 1908 case law[26], in which the doctrine applied to copies that had been sold. Upon codification in the U.S. Copyright Code in 1976, the doctrine applies to any owner of a lawfully transferred copy, regardless of whether it was sold.

In 1978 by the U.S.'s National Commission on New Technical Uses of Copyrighted Works (CONTU) recommended that 'computer program' be explicitly referred to in the copyright legislation, and the Congress adopted this amendment in the U.S. Computer Software Copyright Act 1980.[27]

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16   See the case law mentioned hereinafter in the paragraphs on Germany, The Netherlands and France. For German case law also see *M. Lejeune*, CRi 2010, p. 149–151, where U.S. and German case law is compared.

17   Report from the Commission to the Council, the European Parliament and the Economic and Social Committee on the implementation and effects of Directive 91/250/EEC on the legal protection of computer programs, COM/2000/0199, p. 17.

18   In Germany for example by *T. Hoeren*, MMR 2010, p. 447–450; *O. Sosnitza*, ZUM 2009, p. 521–526; *T. Eilmansberger*, GRUR 2009, p. 1123–1128, each with additional references.

19   German Federal Supreme Court, decision of 3 February 2011 – I ZR 129/08 – UsedSoft.

20   We are aware that this concept does not provide for a right in a legal

sense (it is an exception to the rights of the software vendor), but in everyday speech this concept is often labeled as a right.

21   Cf. note 17, p. 12.

22   German Federal Supreme Court, decision of 3 February 2011 – I ZR 129/08 – UsedSoft.

23   Also see *M. Lejeune*, CRi 2010, p. 149–151.

24   S. Rep. No 162 98th Congress, 1st Sess 4 (1983).

25   *Chr. Wolf*, *The Digital Millennium Copyright Act: Text, history, and case law*, Pike & Fisher Inc (2003), p. 606.

26   *Bobbs-Merrill CO. v. Strauss*, 210 U.S. 339 (1908).

27   *E. Derclaye*, *Research handbook on the future of EU copyright*, Edward Elgar Publishing (2009) p. 75.

In 1990 the Congress amended sec. 109 again by adopting the Computer Software Rental Amendments Act of 1990. This limited the first sale doctrine by stating that a "person in possession of a particular copy of a computer program" is not permitted to transfer that copy "by rental, lease, or lending" for commercial purposes.[28]

In addition to sec. 109 of the U.S. Copyright Act, sec. 117 provides for another limitations on the exclusive right of the copyright owner. Sec. 117 allows the owner of a copy of the computer program to make copies for any purpose associated with the use of the copy by the authorized owner. This provision relates to copies that are essential for the utilization of the software or that are solely made for back up or archive purposes.[29] This so called "essential step" doctrine bares similarities with certain concepts under the European framework, such as the concept of statutory license rights. An important difference is that the essential step defence can only be invoked by the owner of a copy of software, whilst the European statutory license can be invoked by the lawful acquirer, who, apart from a purchaser, may also be a licensee, renter or a person authorized to use the program on behalf of one of the aforementioned (see under III.1. above).

## IV. Recent Case Law

This section presents the status of the exhaustion and first sale doctrines and recent developments in case law over the last year in Germany (1), the Netherlands (2), France (3) and the USA (4).

### 1. Germany

Germany is the absolute top scoring jurisdiction when it comes to cases and judgments relating to exhaustion of software rights. Since as early as the 1990s German courts have produced an impressive series of judgments concerning a wide variety of subjects which are relevant in regard to the resale or making available of used software. There are no less than 8 judgments from the Federal Supreme Court (BGH), the most recent one of 3 February 2011[30]. An equally large number of judgments have been issued by the lower courts. The number of decisions and legal commentaries by scholars would easily justify an article only covering Germany three or four times the size of this article. However, as will be evident, the framework of this article requires to limit the German part to a short summary of the most interesting judgments.

The German Copyright Act (Urheberrechtsgesetz) includes two basic provisions which appear not easy to align when it comes to copyright on software.

Sec. 34(1) German Copyright Act sets forth that an exploitation right may be transferred only with the author's consent. It also says that the author may not unreasonably refuse his consent. This provision seems to give the copyright owner a large span of control on the distribution and further use of software. On the other hand there is the exhaustion rule for computer programs (sec. 69c(3) sentence 2 German Copyright Act) which, in accordance with the exhaustion provision of the Software Directive, sets forth:

> "Where a copy of a computer program is put into circulation by way of sale on the territory of the European Union or of another Contracting State of the Convention Concerning the European Economic Area with the consent of the right holder, the distribution right in respect of that copy shall be exhausted, with the exception of the rental right."

There is a fierce debate going on about the scope of the exhaustion rule. One cannot simply say that sec. 34(1) German Copyright Act does not apply after the first sale of a copy of the software. The discussion in Germany centres around the following issues:

### a) Enforceability of Contractual Clauses

The first issue centres around the question whether or not a contractual limitation in a license agreement which limits the transfer of the user right is valid and enforceable upon third parties who are not directly bound by the terms of the license agreement. More specifically, the question whether or not restrictive license terms can be enforced against later resellers and/or users of the software who have no direct contractual relationship with the rights owner. In 2000 the Federal Supreme Court gave an important ruling[31] on the issue in a case between Microsoft and a hardware manufacturer, involving the resale of OEM-versions of MS-DOS & MS Windows for Workgroups. Under its agreements with hardware manufacturers and resellers the claimant Microsoft had imposed a condition that the software may only be resold together with computer systems. The defendant, who was not bound by a direct contract with Microsoft, had obtained the OEM copies from another distributor (who had probably breached its own agreement with Microsoft), and then resold them to consumers without an accompanying computer. Unlike the courts in first and second instance, the Federal Supreme Court ruled that exhaustion pursuant to sec. 69c(3) German Copyright Act had occurred even if the first sale of the software was in breach of Microsoft's contractual restrictions for OEM versions, so that this exhaustion prevailed over the provision that exploitation right may be transferred only with the author's consent. German copyright law allows the rights owner to control the conditions of the first sale, but – in the absence of direct contractual claims – does not enable the software manufacturer to restrict a later resale of the software. The exhaustion doctrine prevailed here in the interest of the marketability of the goods. It should be noted, however, that the ruling of the Federal Supreme Court had its eye on the permissibility of the resale of the software by a reseller who is not bound by restrictive contractual terms. This OEM judgment of the Federal Supreme Court does not answer the question whether the end user will be entitled to use the software if he still lacks the consent of the copyright owner as may be necessary pursuant to sec. 34(1) German Copyright Act.[32]

28  Computer Software Rental Amendments Act of 1990, Pub. L. No. 101-650, § 802, 104 Stat. 5134 (codified at 17 U.S.C. § 109(b)(1)(A)).
29  *P. Heindl*, A Comparative Analysis of Online Distribution of Software in the United States and Europe: Piracy or "First Use".
30  German Federal Supreme Court, decision of 3 February 2011 – I ZR 129/08 – UsedSoft.
31  German Federal Supreme Court of 6 July 2000 – I ZR 244/97, CR 2000, p. 651–655 – OEM-Version (with comments by *A. Witte*).
32  *H.-W. Moritz*, MMR 2008, p. 601–602; *P. Bräutigam/H.P. Wiesemann*, CR 2010, p. 215–221.

## b) Software Transfer Via Download

The second issue concerns the question whether the exhaustion rule would have to be applied (either directly or in an analogous way) in case of online distribution of software where the buyer does not acquire a pre-fabricated data carrier, but rather creates its own physical copy of the downloaded software. This question was one of the issues dealt with in a dispute between Oracle and the Swiss based used software reseller UsedSoft AG, which is in the business of reselling used software. In the case at hand, UsedSoft had resold used Oracle database software which Oracle distributed online. In its ruling the Court of Appeal (OLG) Munich confirmed[33] the first instance decision[34] which followed the traditional view (explained under III.1.b above) of tying exhaustion to the sale of a physical data carrier, and also said that the analogous application of the exhaustion rule would not be a correct approach because this was not a white spot in the legal framework which the legislator omitted to address. Moreover, in balancing the opposing legal and commercial interests of the manufacturer and the users the Court of Appeal Munich held that online software distribution would be essentially different from software distribution on data carriers. This ruling of the Court of Appeal Munich has since been followed by two similar second instance decisions,[35] suggesting that this is currently the prevailing view in cases of online software distribution.[36] Bearing in mind the earlier Federal Supreme Court decision in the OEM case[37] in which the Federal Supreme Court said that the exhaustion rule prevailed over the right of the copyright owner to control the resale of software distributed on data carriers, and given the fact that nowadays a majority of software products is distributed online, it will be interesting to see whether this legal distinction between different ways of software distribution will hold water. It is, therefore, understandable that the Federal Supreme Court has not only accepted a request for revision of this judgment (even though the Court of Appeal Munich had initially refused to allow the case to go further to the Federal Supreme Court because, in its view, the legal issue was absolutely clear and without question), but also has now referred the issue to the CJEU seeking guidance on how article 4(2) of the Software Directive has to be interpreted in this regard.[38] In its reasons given for the referral the Federal Supreme Court describes the various opposing views which lower courts and legal commentators have so far taken on this issue, but also indicates a clear preference that in its opinion the exhaustion doctrine should be restricted to the sale of physical data carriers, and should not be extended to the online distribution of software. One can expect the CJEU's answers to be one of the most interesting upcoming decisions on software law in the years to come.

## c) Scope of the Statutory Exemption Clause

The third and final question addresses the relevance and application of the rule stated in sec. 69c(1) and (2) German Copyright Act exemption certain necessary activities from the need of authorization by the rights holder. According to this rule a software may be reproduced, run as well as adapted and altered without authorization by the rights holder when these activities are necessary for the mere use of the computer program by any *"person entitled to use a copy of the program in accordance with its intended purpose"*. This rule also allows the correction of software errors (sec. 69d(1) German Copyright Act, which is the German implementation of article 5(1) of the Software Directive).

This rule may seem to be at odds with the general rule of sec. 34(1) German Copyright Act, which says that a transfer of exploitation rights requires the author's consent. The lower court decisions in the UsedSoft case[39] and some commentators[40] have argued that only a user who has received the rights holder's consent may be deemed to qualify as "a person entitled to use" the software copy. In its UsedSoft decision the Court of Appeal Munich[41] explicitly argued that in this regard software is different from music or a film that is stored on a data carrier, because – unlike software – such music or film can be (privately) consumed in a "copyright neutral" way without the need to create a copy. This differentiation appears to be a bit skewed because the technical steps performed by a DVD player when reproducing (!) the content of a film DVD on the attached TV screen are actually quite similar to the process of loading software from a hard disk or other data carrier into the computer's main memory to execute the program.

On the other hand, it may be that "a person entitled to use" the copy is the lawful purchaser of a copy which is subject to exhaustion, and that it would follow from the specific rule in sec. 69d(1) German Copyright Act that the requirement of consent from the author is set aside by this statutory exception for software. In its recent UsedSoft decision[42] the Federal Supreme Court indicated that it tends to prefer this latter view, because otherwise the entire exhaustion doctrine would be rendered meaningless if it was only permitted to (re)distribute, but then impossible to actually use, a software copy that is subject to exhaustion. Again it will be interesting to see how the CJEU will finally decide this question.

The situation in Germany is a clear sign of the level of complication of exhaustion issues in relation to software. Even after a multitude of court decisions all over the country, and even in spite of several decisions from the Federal Supreme Court, there are still open issues that will need clarification from the CJEU.

## 2. Netherlands

The Netherlands has incorporated the Software Directive in the Dutch Copyright Act, including the exhaus-

33  OLG München of 3 July 2008 – 6 U 2759/07, CR 2008, 551–553 (with comments by *P. Bräutigam*).

34  LG München I of 15 March 2007 – 7 O 7061/06, CR 2007, 356–362 (with comments by *J. Dieselhorst*).

35  OLG Frankfurt of 12 May 2009 – 11 W 15/09, CR 2009, 423–426 (with comments by *M. Hilber* and *J. Rabus*); OLG Düsseldorf of 29 June 2009 – I-20 U 247/08, CR 2009, 566–568.

36  Despite significant criticism in legal literature, e.g. *T. Hoeren*, MMR 2010, p. 447–450; *O. Sosnitza*, ZUM 2009, p. 521–526; *T. Eilmansberger*, GRUR 2009, p. 1123–1128.

37  German Federal Supreme Court of 6 July 2000 – I ZR 244/97, CR 2000, p. 651–655 – OEM-Version (with comments by *A. Witte*).

38  Federal Supreme Court of 3 February 2011 (case no. I ZR 129/08) – UsedSoft.

39  OLG München of 3 July 2008 – 6 U 2759/07, CR 2008, 551–553 (with comments by *P. Bräutigam*); LG München I of 15 March 2007 – 7 O 7061/06, CR 2007, 356–362 (with comments by *J. Dieselhorst*).

40  Amongst whom *P. Bräutigam/H.P. Wiesemann*, CR 2010, p. 215–221; *T.J. Heydn*, CR 2010, p. 765–776.

41  OLG München of 3 July 2008 – 6 U 2759/07, CR 2008, 551–553 (with comments by *P. Bräutigam*).

42  German Federal Supreme Court of 3 February 2011 – I ZR 129/08 – UsedSoft.

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tion principle and the principle of the statutory license right. The exhaustion principle for copyrighted work has been recognized by the Dutch Supreme Court already in the 1950s. There is several case law on exhaustion, but there is only limited case law dealing with exhaustion in relation to software.[43]

In 2002 the Court of First Instance in The Hague was asked to rule on the legality of the use of used software in absence of an EULA.[44] Van Spijker purchased several discs with proprietary flight simulation software from a trustee in bankruptcy. The purchaser had not entered into an EULA and software vendor (Van der Schaaf) objected to the use of the software. The court ruled:

> "As a result of the purchase, Van Spijker clearly has become the owner of the discs, however, that does not have the effect that he has acquired any right to use the software whatsoever."[45]

On 11 August 2010, the First Instance Court of Dordrecht came to a decision that is the opposite of the one just mentioned. This court found that a purchaser of used software has a statutory license right under copyright law.[46] The case concerns CAD software that was installed on several workstations by the authorized distributor of the software. Kalmar purchased the workstations from the distributor and paid the distributor for a license to use the software. The license terms prohibited making the software and documents available to third parties without prior written consent of distributor. Kalmar sold the workstations, including the software, to IV, without obtaining consent from IE, the successor of the distributor that had originally sold the software. IV starts using the software for its own business, in the same manner as Kalmar had used it previously. IE objected and commenced legal proceedings against IV. IE claimed that IV infringes the copyrights in the software. Besides IE claimed that IV acted tortuous by profiting from the breach of contract by Kalmar. The court assumed that IE is authorised to enforce the copyrights.

The court considered that the under the Dutch Copyright Act, the reproduction of the software by the lawful acquirer of a copy of software necessary to use the software for the intended purpose, unless agreed otherwise, is not a copyright infringement. The court consequently considered that when IV uses the software in a completely normal way on the workstations, it needs no consent from the right holder, provided IV is a lawful acquirer.

The court considers that although the term "lawful acquirer" is not defined in the Dutch Copyright Act, generally this terms is believed to mean the person to whom the right holder has made the software available, for instance by means of sale, and also the subsequent acquirers of the copy of which the distribution right is exhausted. Because IV purchased the workstations from Kalmar, IV is a lawful acquirer. The fact that the terms and conditions under which Kalmar had originally purchased the software prohibit making the software avail-

able to third parties, in view of the court, have no effect as to the exhaustion under Copyright Law.

The court expressly stated that although the non-transfer clause may have no effect under Copyright Law, it may have effect under Contract Law. As to the alleged tortuous act consisting of profiting from the breach of contract by Kalmar, the court, however, found that there is no such tortuous act. Decisive argument in this respect is that it has not been proven that IV knew of the non-transfer clause in the terms and conditions and that IV had used the software for a short period of only 3 months.

Most interesting about this judgment is the granting of the statutory license right to the purchaser of the original data carrier containing used software. Besides it is interesting to note that the application of exhaustion principle is not affected by restrictive terms in the EULA. This judgment has lead various legal commentators to argue that software vendors trying to avoid the exhaustion principle (and therefore also the statutory license concept) might reserve title to the data carriers of their software.[47] It is not clear, however, whether such retention of title to the data carrier in a contract that otherwise "looks, feels and smells" like a standard sales contract would be upheld under the applicable laws restricting "unreasonable" clauses in standard terms and conditions.

## 3. France

France[48] also has incorporated the exhaustion and statutory license doctrines in its copyright act. In France a limited number of decisions has been handed down regarding exhaustion and software. All these decisions deal with the position of the reseller of software, and not with the users of such software.

The first French software exhaustion decision[49] relates to Microsoft software. The Court of Créteil ruled that Microsoft, in absence of a contractual obligation, could not impose upon a trader of exhausted Microsoft software certain marketing conditions (such as the requirement that users should also have an earlier version of the software), on the basis of its copyrights. The court also ruled that the end user license terms contained in the package of the software (requiring such earlier version) cannot be considered to be a contractual obligation between Microsoft and the trader. This judgment is interesting as the court explicitly states that the restrictive terms of the EULA do not affect the exhaustion concept.

Another Microsoft case concerned the situation in which the trader of exhausted software transferred the software from the originally purchased data carrier, i.e. computer, to the hard disk of another computer. The court ruled that the trader infringed copyright law and could not call upon exhaustion.[50] The court therefore assumed that the exhaustion doctrine does only apply in

43  See *H. Struik*, *P.C. van Schelven* and *W.A.J. Hoorneman*, *Softwarerecht*, Kluwer: Deventer 2010, p. 140.
44  Court of Den Haag 12 February 2002, Computerrecht 2002, p. 147.
45  Unofficial translation. Court of Den Haag 12 February 2002, Computerrecht 2002, p. 147.
46  Court of Dordrecht 11 August 2010, LJN: BN3863 (I.E. *Beheer B.V. v. IV Bouw en Industrie B.V.*).

47  See the commentary to this judgment by *H. Struik*, AMI 2010/6, p. 208–209 and *H. Jansen*, ITenRecht.nl nr IT 148.
48  The authors would like to thank *Bradley Joslove* and *Olivier Haas* of law firm Franklin for their input.
49  Tribunal de commerce de Créteil, 12 November 1996 (Microsoft/Direct Price): *D. Affaires 1997. 189*; *RIDA, avr. 1997, p. 310*.
50  Cour d'Appel de Douai, 26 January 2009 (WipNord Microsoft): Propr. intell. 2009, no 32, p. 268, obs. Lucas; RLDI 2009, no 50, 1635.

connection to the sale of the original data carrier on which the software is stored. Although this case does not deal with an online environment, this seems to exclude downloaded software from the exhaustion principle.

## 4. United States

The U.S. [51] has seen a few judgments on the applicability of the first sale doctrine in relation to software licenses. The main issue is whether the acquisition of a software license is a sale transaction or a license only. Courts have ruled differently.

In *SoftMan Products Co. v. Adobe Systems Inc.* the U.S. District Court for the Central District of California held that the acquisition of an Adobe license should be qualified as a sale transaction, making the software subject to the first sale doctrine.[52] The court reached that conclusion amongst others because (i) the purchaser pays a single price for unlimited use, without obligation to return the software and (ii) the business environment suggests that Adobe sells its products to resellers, who then resell the software. The court also refers to several earlier judgements in which it was ruled that the sale of software is the sale of a good within the meaning of Uniform Commercial Code.

In *Davidson & Associates v. Internet Gateway Inc.*[53] the District Court of Missouri contemplates that "[w]hen defendants purchased the games, they bought a license to use the software, but did not buy the software." The court concludes: "Defendants do not produce sufficient evidence demonstrating that title and ownership of the games passed to them. Therefore, the court finds that the first sale doctrine is inapplicable here."

More recently, in *Vernor v. Autodesk, Inc.*[54] the United States Court of Appeals for the Ninth Circuit, held that "a software user is a licensee rather than an owner of a copy where the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the

user's ability to transfer the software; and (3) imposes notable use restrictions." The same reasoning was consequently applied even more recently in *MDY Industries v. Blizzard Entertainment*.[55]

The trend therefore seems to be that restrictive EULAs may lead to the first sale doctrine not being applicable.

## V. Concluding Observations

The principles of exhaustion and of first sale are interesting but complex legal concepts. Courts all over the world are struggling to align these concepts with the prevailing thought that the use of software in principle requires the software vendor's approval. Even though the European Software Directive seems to give the user of used software a statutory license to use the software and even though various U.S. courts have determined that the purchase of a software license should be treated as a purchase of goods, courts are hesitant to allow for the distribution and use of software that deviates from the software vendor's terms of use.

In Europe the recent decision of the Dutch Dordrecht Court marks perhaps a turning point, further opening the market for used software. This may be so until the CJEU finally answers the questions raised in the German UsedSoft case. Reservation of title in the data carriers on which the software is stored might be an escape route for software vendors, although the laws on standard terms and conditions may prevent this. Other vendors might try to tie the use of their software to (non-transferable) online accounts, so that the use of "second hand" software is not restricted on a legal but on a technical level.[56] In the U.S., however, the *Vernor v. Autodesk* case leads in the opposite direction by strengthening the legal position of software vendors.

Other interesting questions remain to be solved, for example, does the exhaustion principle also apply to software that is distributed online? The CJEU has to answer this question as well at the request of the German Federal Supreme Court.

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51  Also see *M. Lejeune*, CRi 2010, p. 149–151.
52  US District Court of California, October 19, 2001, 171 F. Supp.2d 1075; 2001 U.S. Dist. LEXIS 17723; 45 U.C.C. Rep. Serv. 2d (Callaghan) 945(*SoftMan Products Company, LLC v. Adobe Systems Inc.*, et al.).
53  US District Court Missouri, 30 September 2004, 334 F.Supp.2d 1164 (*Davidson & Associates v. Internet Gateway*).
54  US Court of Appeals for the Ninth Circuit, 10 September 2010, No. 09-35969, D.C. No. 2:07-cv-01189-RAJ, see CRi 2010, pp. 145–149 with interesting remarks by *Lejeune* at pp. 149–151.

55  US Court of Appeals for the Ninth Circuit, 17 February 2011, No. 09-15932 D.C. No. 2:06-CV-02555-DGC and No. 09-16044 D.C. No. 2:06-CV-02555-DGC.
56  An approach recently accepted in a decision of the Federal Supreme Court dated 11 February 2010 – I ZR 178/08, CR 2010, 565–569 – Half Life 2 (with comments by *M. Menz/M. Neubauer*).

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*Peter Blume*

# Embassies and Personal Data

## An Unsafe Place for Data Protection

*The article considers how the data protection rules in Directive 95/46 EC and in national law apply to data processing carried out by an embassy. Three situations are discussed: processing inside and from the embassy,*  *processing in the receiving country on behalf of an embassy, and transference of personal data from the embassy to the home country. Although an embassy may represent an unsafe area for the personal integrity of citizens, this topic has not been considered in data protection law and for this reason there are no references in the article.*

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