Digital exhaustion after *Tom Kabinet*: a non-exhausted debate

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After years of controversial national decisions and CJEU's dicta, the Grand Chamber's ruling in the *Tom Kabinet* case (C-263/18) seems to have excluded once forever – save for an *ad hoc* legislative intervention – the admissibility of digital exhaustion under Article 4(2) InfoSoc. The CJEU's rejection of an extension of the principle of exhaustion of the right of distribution from material to digital copies is based upon a strict literal and contextual interpretation of EU and international sources, which is relatively immune from critiques. However, with its simplistic answer the Court has still failed to tackle the most important interpretative questions raised by the evolution of digital markets. In fact, the *Tom Kabinet* decision does not update the classificatory dichotomies on the basis of which the InfoSoc draws the borders between exclusive rights. It does not intervene on the tilt in the balance between copyright, competition, fundamental freedoms and other conflicting fundamental rights triggered by new digital business models. Last, it does nothing to solve the systematic and teleological inconsistencies which have affected the judicial development of EU copyright in the field, while suggesting through underdeveloped hints that digital exhaustion may still operate if specific technological solutions are put in place. This chapter provides an overview of the legislative (§2.1) and judicial debate (§2.2) that led to the Grand Chamber's decision, analyzing the most relevant legal (§3) and economic (§4) arguments advanced in favor and against the extension of Article 4(2) InfoSoc to cover digital copies. Then, it comments on the Tom Kabinet ruling (§5), commenting on its strength and weaknesses (§6) to draw the path that should be followed in order to tackle the most dangerous pitfalls the decision has engendered (§7).

1. Introduction

The principle of exhaustion represents one of the most consolidated, durable balancing tools developed by national copyright laws. Introduced to set the interplay between users' property rights over material copies and authors' exclusive rights over their creations, exhaustion soon turned into an instrument used to mediate between copyright protection and the need to guarantee access and affordability of protected works, foster competition and the rise of secondary market, facilitate innovation, and protect other rights and freedoms such as property, privacy and the freedom of movement of goods.[2]

The principle was widely adopted without substantial challenges during the 20th century. In the material world, in fact, the impact of exhaustion on the exploitation of the work has always been limited. Since tangible copies are subject to wear and tear, their marketability and value decrease over time, and the second-hand sale requires the original owner to surrender the possession of her copies, original and secondary markets of protected works do not stand in strong competition with each other.[3] The legal boundaries of material exhaustion are also clear and well-defined. The tangible nature of the support and its commercialization via implied sale contracts raise no question as to the qualification of the conduct as distribution, and no confusion between support and intellectual creation, and between the property right over the former and the copyright over the latter.[4]

On the contrary, in the digital environment the quality of the copy does not deteriorate over time and its enjoyment is not rival, thus increasing the risk of privacy and the competition between original and secondary markets of the work.[5] In addition, a literal interpretation of existing sources and the requirements they introduce

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[2] For a concise summary, with reference to US copyright law, see Perzanowski-Schultz (2011) pp. 908 et seq.

[3] On this comparison, maintaining that the differences between material and digital markets justify the ban of digital exhaustion, see Wiebe (2010) pp. 321-323. See also Reese (2002-2003), p.57

[4] For a comprehensive analysis of the theoretical obstacles posed by the characteristics of the digital environment, see Karapapa (2014) pp. 307 et seq.

[5] Similarly, see Kerber (2016) pp. 153 et seq.

for the operation of the principle also militate against the extension of exhaustion to digital copies.[6] In fact, the intangibility of the copy and its commercialization via license, which does not formally transfer their ownership, cause its qualification as a service (while exhaustion is limited to goods), and the definition of its transfer as an act of communication to the public (whereas exhaustion is limited to distribution). These arguments have led the majority of scholars and national courts to reject the admissibility of digital exhaustion, adopting a strict positivistic and literal interpretation of the tangible-intangible dichotomy on which the WIPO Copyright Treaty (WCT) and the InfoSoc Directive[7] ground the definition of the boundaries between right of distribution and right of communication to the public.

This approach has generally failed to consider and internalize the fact that when the WCT and the InfoSoc Directive were drafted, the digitization of protected works and the shift towards online market were still at the beginning, and their implications far from being understood.[8] In other sectors of copyright law, however, when compelled to ensure that outdated acts could still fulfill their objectives, the CJEU has adopted a much more flexible teleological interpretation, based on the notion of functional equivalence of tangible and intangible copies in light of new technological developments.[9] In order to support the asymmetry in the methods of interpretation and conceptual definitions, the Court has made ample use of *obiter dicta* and the *lex specialis* argument. This has led to the construction of a system where the InfoSoc Directive remains a weak *lex generalis*, surrounded by a plethora of sector-specific acts that derogate from the tangible-only reading of terms such as "original" and "copy", and admit the stretching of exhaustion or exceptions to cover digital supports.

Departing from the approach that characterized the judicial development of Community exhaustion, which intervened on national copyright laws to reconcile copyright and fundamental freedoms,[10] the CJEU has neglected to consider how the digital environment presents shortcomings that could be effectively tackled only by digital exhaustion. More than in the material world, digital rightholders have the possibility to block the development of secondary markets, control the threats coming from potential competitors, and maintain the ability to price-discriminate through market segmentation.[11] Protected works could be put out-of-commerce in no time, and access and uses can be more tightly constrained and controlled by technological measures of protection, with a greater impact on users' privacy and property rights and interests.[12] Engaged in a strict literal interpretation of the InfoSoc Directive, the CJEU has not explored any alternative path, nor has it verified whether the protection of the specific subject matter of copyright requires the exclusion of exhaustion on digital copies.[13]

Most scholars have advocated for a legislative reform to introduce digital exhaustion under Article 4(2) InfoSoc, arguing that the language of the InfoSoc Directive and the WCT and the policy relevance of the matter make it a task for the EU legislator rather than for courts.[14] Unfortunately, after a brief mention in the public consultation on the modernization of EU copyright rules,[15] the topic has disappeared from the focus of the

[6] See the cases commented on by Mezei (2015) paras 65-94, and related ample bibliography.
[7] Directive 2001/29/EC of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society [2001] OJ L167/10 (InfoSoc Directive).
[8] Mezei (2015) paras 183 et seq.
[9] Explained in economic terms by Rubi Puig (2013) pp.159 et seq.
[10] See infra, para 2.2.
[11] As highlighted, inter alia, by Maurer (2001-2002), pp. 55 et seq.; Maurer (1997) pp. 845 et seq.; Benkler (2000) pp.2063 et seq.; Boyle (2000), pp. 2007 et seq.; Lunnedy jr (2008) pp. 387 et seq.; Fisher (2007) pp. 1 et seq. Perzanowski-Schultz (2011), pp 901-907; with specific regard to software products, see Rubi Puig (2013), paras 43-71.
[12] Perzanowski-Schultz (2011), pp.906-907; already Cohen (1996) p 981.
[13] See also Benabou (2016), pp.351-378.
[14] Eg Mezei (2015), paras 182, 191, 195, who highlights that a number of attempts of legislative amendment have already failed; see also Rosati (2015) pp. 680-681, but contra Karapapa (2014), p.309.
[15] Commission, 'Public Consultation on the Review of the EU Copyright Rules', pp. 13-14, and 'Report on the responses to the Public Consultation on the Review of the EU Copyright Rules', pp. 20-22.

Digital Single Market copyright reform,[16] despite numerous doctrinal contributions evidenced how digital exhaustion is needed to ensure systematic consistency within EU copyright law, reinstate its balance with conflicting rights and freedoms, and achieve some of its economic, social and cultural goals.

In December 2019 – a few months after the enactment of Directive 2019/710/EU on Copyright in the Digital Single Market (CDSM Directive),[17] and following years of controversial rulings - the Grand Chamber's decision in the *Tom Kabinet* case (C-263/18) seems to have excluded once forever, save for a future legislative intervention, the admissibility of digital exhaustion under Article 4(2) InfoSoc. The CJEU's answer was, as expected, based upon a strict literal and contextual interpretation of EU and international sources. However, with its straightforward reading the Court has still failed to tackle the most important interpretative questions raised by the evolution of digital markets. In fact, the *Tom Kabinet* decision does not update the classificatory dichotomies on the basis of which the InfoSoc draws the borders between exclusive rights. It does not intervene on the tilt in the balance between copyright, competition, fundamental freedoms and other conflicting fundamental rights triggered by new digital business models. Last, it does nothing to solve the systematic and teleological inconsistencies which have affected the judicial development of EU copyright in the field, while suggesting through underdeveloped hints that digital exhaustion may still operate if specific technological solutions are put in place.

This chapter provides an overview of the legislative (§2.1) and judicial debate (§2.2) that led to the Grand Chamber's decision, analyzing the most relevant legal (§3) and economic (§4) arguments advanced in favor and against the extension of Article 4(2) InfoSoc to cover digital copies. Then, it comments on the Tom Kabinet ruling (§5), analyzing facts, AG Opinion and final decision. To conclude, it comments on the strength and weaknesses of the Grand Chamber's decision (§6) to draw the path that should be followed in order to tackle the most dangerous pitfalls *Tom Kabinet* has engendered (§7).

2. The long road towards *Tom Kabinet*

2.1. Sources and provisions at stake

The first international reference to exhaustion can be found in the two WIPO Internet Treaties (Article 6(2) WCT and Article 8(2) WPPT[18]), which similarly rule that "nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right [of distribution] applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author". Legislators are thus free to regulate the principle outside the borders set by the three-step test,[19] but they should subordinate its application to the first lawful sale or other transfer of ownership.[20] In addition, the Agreed Statement on Articles 6 and 7 WCT limits the scope of distribution and its exhaustion to "fixed copies that can be put into circulation as tangible objects",[21] seemingly excluding works in digital format,[22] although some commentators have theorized that the wording of the Statement only requires the work to be potentially fixable on a material support, and not to be already fixed.[23]

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[16] Commission, 'Communication a Digital Single Market Strategy for Europe' COM(2015) 192 final, p.3.
[17] Directive (EU) 2019/790 of 17 April 2019 on copyright and related rights in the Digital Single Market and amending Directives 96/9/EC and 2001/29/EC [2019] OJ L-130/92.
[18] The Berne Convention and the TRIPs Agreement do not regulate exhaustion, leaving it to contracting parties due to lack of supranational consensus as to its national, regional or international nature. See Ficsor (2002) pp.153-155, 210-226. Some aspects of the right of distribution, instead, were already regulated by the Berne Convention. See Ricketson-Ginsburg (2006) pp. 660 et seq.
[19] In the opinion of Mezei (2015) para 18, in line with von Lewinski (2008), para 17.65.
[20] Reinbothe-von Lewinski (2015) p.87.
[21] See *Agreed Statements concerning the WIPO Copyright Treaty, adopted by the Diplomatic Conference of December 20, 1996, Concerning Articles 6 and 7,* <http://www.wipo.int/treaties/en/text.jsp?file_id=295456>. Accessed 13 June 2020.
[22] See, eg, Sterling (2015) pp. 574 et seq.
[23] More recently, see Ruffler (2007) p.380.

Until material and online forms of exploitation remained clearly distinct, the rigidity of the dichotomy adopted by the Statement did not cause significant problems. The right of communication/making available to the public covered transmissions of protected works that did not end up in possession of users, and were originated either on demand (making available) or upon the rightholder's initiative (communication); the right of distribution covered the commercialization of tangible copies in the material world.[24] With the growth of online markets and the commercialization of digital files via permanent transfer, the question arose whether the functional and economic equivalence of such transactions with material sales justified their qualification as distribution.

The EU legislator pondered long before regulating exhaustion, in the belief that the development of Community exhaustion by the CJEU case law had made superfluous any legislative intervention.[25][26] It finally crystallized it in two legislative texts – the Software Directive I (1991) and the Rental Directive I (1992),[27] using the distinction between sale-style and service-style rights to draw the borders of the principle, and excluding it in case of rental and communication to the public rights.[28] None of the directives mentioned the tangible nature of the copy as a requirement for exhaustion to take place. The distinction between tangible and intangible copies first emerged in the Commission's report on the implementation of the Software Directive I,[29] and later in the Follow-up to the Green Paper on Copyright in the Information Society, which defined as a service the online exploitation of a work.[30] Along the same lines, the Database Directive (1996) built on the definitions used by the Software I and Rental I Directives,[31] adding the exclusion of exhaustion in case of re-utilization of materials extracted from online databases.[32]

When called to implement the WCT by the InfoSoc Directive, the EU legislator complemented the text of the Treaty with this construction. After copying almost slavishly Article 6 WCT to regulate the right of distribution and its exhaustion (Article 4), the Directive embedded the Agreed Statement's limitation to tangible copies (Recital 28),[33] and added, in line with previous Directives, the exclusion of the right of communication to the public (Article3(3)) and of services and copies made from online services from the scope of the principle (Recital 29).[34] With no further reflection compared to the 1996 WCT, the EU legislator did not provide any additional guidance to classify "grey" forms of exploitation such as the permanent alienation and transfer of digital files over the Internet, leaving in haze the boundaries between the right of distribution and the right of communication to the public. This inevitably triggered a number of interpretative problems with the fast evolution of new digital business models, bringing again back to the stage a principle whose judicial development traced back to the early 1970s.

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[24] Broadly Mezei (2015), paras 21-22, referring also to Ficsor (2002), pp.205-206 and 249-250.

[25] Commission, 'Green Paper on Copyright and the Challenge of Technology – Copyright Issues Requiring Immediate Action', COM (1988) 172 final.

[26] Ibid para 4.10.5, with reference to Case C-62/79 *SA Compagnie générale pour la diffusion de la télévision, Coditel, and others v Ciné Vog Films and others* (Coditel I) [1980] ECR I-0881 and Case C-262/81 *Coditel v CinéVog Films II* (Coditel II) [1982] ECR I-3381.

[27] Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs, OJ L122/42 (Software Directive I); Council 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, OJ L346/61 (Rental Directive I).

[28] Art 4(c) Software Directive I; Art 1(4) Rental Directive I.

[29] Commission, Report on the implementation and effects of Directive 91/250/EEC on the legal protection of computer programs, COM(2000) 199 final, 17 (exhaustion "only applies to the sale of copies i.e. goods, whereas supply through on-line services does not entail exhaustion").

[30] Commission, 'Follow-up to the Green Paper on Copyright and Related Rights in the Information Society', COM(96) 568 final, Ch 2, 19, para 4.

[31] Directive 96/9/EC of the European Parliament and the Council of 11 March 1996 on the legal protection of databases OJ L77/20 (Database Directive), Article 5(c).

[32] Ibid Recital 43.

[33] "Copyright protection under this Directive includes the exclusive right to control distribution of the work incorporated in a tangible article".

[34] "The question of exhaustion does not arise in the case of services and on-line services in particular".

2.2. Judicial swings

2.2.1. Early CJEU case law (1970s-1990s)

The debut of exhaustion in the EU traces back to the 1970s, when the CJEU introduced the doctrine of Community exhaustion in *Deutsche Grammophon*.[35] The case revolved around the legitimacy of the plaintiff's use of a licensing scheme based on a net of exclusive national distributors of sound recordings, which resulted in the segmentation of the internal market. The scheme was made possible by the territorial nature of copyright and the limitation of exhaustion to first sales that took place within national borders. Ruling that Article 36 EC (now Article 36 TFEU) allowed derogations to the freedom of movement of goods only "for the purpose of safeguarding rights which constitute the specific subject-matter" of industrial and commercial property,[36] the CJEU barred the application of national exhaustion as "repugnant to the essential purpose of the Treaty"[37] and tilting the balance between fundamental freedoms and copyright, beyond what was necessary to protect the subject matter of copyright.[38]

The notion of essential function helped the CJEU offering articulated axiological arguments to draw the borders of Community exhaustion.[39] Yet, the EU legislator embedded only the tangible construction and exclusion of services as criteria to delimitate the principle beyond what was requested by the WCT.[40] The abandonment of the teleological argument as a criterion to identify the need and opportunity of implementing exhaustion could not but contribute to straightjacketing the system. As a result, the CJEU case law that directly or indirectly intervened in the years to follow on digital exhaustion could not ensure the systemic coherence and adaptation needed for 1990s-early 2000s sources to still perform their role *vis-à-vis* the evolution of digital business models.

2.2.2. ***UsedSoft*** **(C-128/11)**

Until December 2019, the only direct decision on digital exhaustion is *UsedSoft v Oracle* (2012) - one of the most criticized copyright ruling of the CJEU. The main question posed to the Court was whether under Article 4(2) Software II[41] the right of distribution of a copy of a computer software was exhausted by the transfer via download of a digital copy of the program for an unlimited period, in exchange for a fee corresponding to the economic value of that copy, even if the related contract was framed as a license and not as a sale. The inquiry arose from the fact that also Article 4(2) Software II, exactly as Article 4(2) InfoSoc, links the exhaustion of the right of distribution to the first sale of the copy, thus excluding licenses.

The CJEU introduced a functional definition of the notion of sale and requalified Oracle's licensing scheme as a sale in light of its characteristics (permanent transfer, fee corresponding to the value of the copy), arguing that the format and medium through which the copy was delivered did not change the legal and economic substance of the operation.[42] Opting for a formalistic interpretation of the contractual qualification as a "license", without looking at the economic meaning of the transaction, would have allowed the rightholder to demand an additional remuneration after each transfer, even in those cases when the first sale had already granted him an appropriate return. The same would have happened if the decision on the application of exhaustion were based on the nature of the copy, whereas the functional and economic equivalence of tangible and intangible supports

[35] Case C-78/70 *Deutsche Grammophon Gesellschaft Gmbh v Metro-SB-Großmärkte GmbH & Co. KG.* [1971] ECR I-499.
[36] Ibid para 11. The Court ruled that the derogation introduced by Article 36 EC referred to the existence of the rights, *id est* their creation by national legislators, but not to their exercise, which could in no case violate the provisions of the Treaty (existence-exercise dichotomy). See, e.g., Fennelly (2003); Ubertazzi (2014) pp.38-41; Strowel-Kim (2012) pp.121 et seq. On the development of the doctrine see Schovsbo (2012) pp. 174-178.
[37] *Deutsche Grammophon*, paras 12-13.
[38] Ibid.
[39] See *Coditel I* and *II* (supra n 26).
[40] *Coditel II*, para 43.
[41] Directive 2009/24/EC of 23 April 2009 on the legal protection of computer programs [2009] OJ L111/16 (Software Directive II).
[42] Case C-128/11 *UsedSoft GmbH v Oracle International Corp.* EU:C:2012:407, paras 45-47.

required to treat them equally *vis-à-vis* the principle.[43] More generally, the control over secondary markets and restriction of fundamental freedoms ensuing from the disapplication of exhaustion would have gone beyond what was "necessary to safeguard the specific subject-matter" of copyright,[44] and thus be unjustified.[45]

To complete its analysis and answer to Oracle's objection that the download of software constituted an act of communication to the public, which is excluded from the scope of exhaustion, the Court emphasized the *lex specialis* nature of the Software Directive II, ruled out the application of Article 3 InfoSoc, and qualified any transfer of the work, regardless of its form, as a distribution under Article 4 Software II. Despite the *lex specialis* shortcut, however, the CJEU took the opportunity to specify that under Article 6(1) WCT, which constitutes the basis of Articles 3 and 4 InfoSoc, the rights of distribution and communication to the public should be distinguished on the basis of the type of transfer and use of the work, having distribution every time there is a transfer of ownership of the copy.[46]

UsedSoft looked at the objectives of exhaustion – to avoid the partitioning of markets, while limiting the constraints to the distribution right to what was necessary to safeguard the specific subject-matter of copyright -, in order to redefine the borders of the principle. On this basis, it overcame the literal interpretation of the sale-license and good-service dichotomies in favor of a teleological reading of exhaustion and its systematic function, overstepping also the material-only reading of "copy", "original" and "object" in the context of the right of distribution. Although the revolutionary impact of the reading was weakened by the use of the *lex specialis* argument,[47] the decision created a strong link with the early CJEU case law, channeling in the essential function of copyright to adjust its internal balance to changing circumstances. If generalized, this teleological reading could have helped reaching a more coherent evolution of EU copyright law. The Court, however, decided not to go down this road.

2.2.3. From *Allposters* (C-419/13) to *VOB* (C-174/15)

No cases ruled directly on digital exhaustion under the InfoSoc Directive before *Tom Kabinet*.[48] Some indirect references nevertheless emerged in decisions where the Court tried to control the side effects of the tangible-intangible dichotomy in other areas of copyright law, building a patchwork of inconsistent responses.

Although it is centered on tangible objects, *Art & Allposters*[49] has been identified as the first resolute denial against digital exhaustion.[50] The case concerns the legitimacy of the transfer of images of protected works from posters on which the distribution right was exhausted to canvas, later sold without the rightholder's consent. Instead of qualifying the matter under the umbrella of the adaptation right, which is not harmonized by the InfoSoc Directive and thus not under the competence of the Court, the CJEU referred to Article 4 InfoSoc, since both posters and canvas carried an image of the work.[51] The question was, therefore, whether exhaustion could still apply when the medium was altered after the first sale. The Court answered to the negative, arguing that the alteration created a new object and thus constituted an unlawful reproduction under Article 2 InfoSoc,

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[43] *UsedSoft*, para 61.
[44] Ibid para 62, referring to Case C-200/96 *Metronome Musik GmbH v. Music Point Hokamp GmbH* [1998] ECR I-01978, Case C-61/97 *FDV* [1998] ECR I-5171, para 13 and Joined Cases C-403/08 *Football Association Premier League Ltd et al v QC Leisure et al* and C-429/08 *Karen Murphy v Media Protection Services Ltd* [2011] ECR I-09083 (FAPL), para 106.
[45] Ibid para 49.
[46] Ibid para 52, as also noted by the Opinion of AG Bot, EU:C:2012:234, para 73. A similar distinction could be already found in Case C-456/06 *Peek & Cloppenburg* [2008] ECR I-2731, para 30.
[47] Ibid para 60. The Court underlined the different language used in the two acts, where Article 4(2) Software II refers to the sale of a copy of the program, making no distinction as to its tangible or intangible form (para 55), and Article 1(2) Software II extends the scope of the Directive "to the expression in any form of a computer program", with a clear assimilation of tangible and intangible copies (paras 57-58).
[48] As maintained and evidenced by Galič (Savič) (2015) pp. 415-416.
[49] Case C-419/13 *Art & Allposters International BV v Stichting Pictoright* [2015] EU:C:2015:27.
[50] See, eg, Rosati (2015), and Galič (2015), pp.390-391.
[51] *Allposters,* paras 26-27.

regardless of whether the first medium was destroyed.[52] The conclusion was grounded on a strict literal and contextual interpretation of the notion of "that object" under Article 4(2) InfoSoc, based on Recital 28 InfoSoc, Article 6 WCT and the Agreed Statement,[53] which according to the CJEU converge in proving the legislative intention to "give authors control over the initial marketing (…) of each *tangible object* incorporating their intellectual creation".[54] As a supporting teleological argument, the CJEU maintained that the high level of protection to be granted to copyright[55] requires the exclusion of exhaustion for new supports, since this would deprive rightholders of the possibility to extract an appropriate reward from new forms of exploitation of their works.[56] In fact, digital exhaustion is never mentioned, and the reference to tangibility is a *dictum* rather than part of the main reasoning. However, the literal interpretation offered by the CJEU seemed to set quite a definite direction.[57]

Ranks[58] confirmed *UsedSoft*, arguing that the lawful acquirer of a tangible copy of a software, the original copy of which got destroyed, damaged or lost, cannot be prevented from reselling it and be discriminated against the owner of an intangible copy, for this would frustrate the goals of exhaustion.[59] Yet, the CJEU restricted the scope of the precedent by ruling out the application of the principle in case of backup and other non-original copies, regardless of whether the original support was damaged or destroyed. With no trace of teleological argument and with a very concise reasoning, the Court excluded that exhaustion can broaden the scope of the backup exception (Article 5(2) Software I) and allow the commercialization of used backup copies, since the Directive is clear in stating that reproductions are allowed only if "made and used to meet the sole needs of the person having the right to use that program".[60]

In contrast with this approach, in *VOB*[61] the Court admitted the extension of the public lending exception (Article 6 Rental II[62]) to e-books, despite Article 3 Rental II defines the scope of rental and lending by referring to "originals" and "copies", and the Agreed Statement to Articles 6 and 7 WCT limit the two notions to tangible copies also in the case of rental. Asserting the need to ensure the effectiveness of the exception, the CJEU underlined that the WCT does not cover lending, and argued that by using the plural "rights" also the EU legislator assumed that rental and lending were meant to be regulated autonomously.[63]. Also here the ruling was limited to the Rental Directive II as *lex specialis*,[64] and the Court added as a side note that "object" and "copies" should otherwise be read as indicating tangible objects, in line with the Agreed Statement.[65] However, the Luxembourg judges indulged in one additional specification, answering to the second question raised by the referring court. In fact, *VOB* stated that EU law does not preclude a Member State to subordinate the application of the public lending exception to the exhaustion of the distribution right over the copy under Article 4(2) InfoSoc.[66] The argument could well be justified by the willingness to protect authors, to avoid the lending of works not put in circulation upon rightholders' consent.[67] Yet, it is still striking that the Court seems

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[52] *Allposters*, para 43.
[53] Ibid paras 34-35 and 38-39.
[54] Ibid para 3.7 (emphasis added).
[55] Ibid para 47.
[56] Ibid para 47, where appropriate means "reasonable in relation to the economic value of the (…) work" (Ibid para 48, as also in *FAPL*, paras 107-109)
[57] See particularly Rosati (2015) 680.
[58] Case C-166/15 *Aleksandrs Ranks and Jurijs Vasiļevičs v Finanšu un ekonomisko noziegumu izmeklēšanas prokoratūra and Microsoft Corp.*, EU:C:2016:762.
[59] Ibid para 50.
[60] Ibid 43.
[61] Case C-174/15 *Vereniging Openbare Bibliotheken v Stichting Leenrecht* (VOB) [2016] EU:C:2016:856).
[62] Directive 2006/115/EC of the European Parliament and of the Council of 12 December 2006 on rental right and lending right and on certain rights related to copyright in the field of intellectual property (Rental Directive II), OJ L376/28.
[63] *VOB*, para 27.
[64] Ibid para 56, with reference to Article 1(2)(b) InfoSoc.
[65] Ibid paras 33-34.
[66] Ibid para 60.
[67] Ibid paras 61-63.

to authorize the introduction of digital exhaustion as a precondition to the enjoyment of the new public e-lending exception,[68] spending no words on the implication of this statement for the extension to digital copies of Article 4(2) InfoSoc.

The fact- and sector-specific approach adopted by the CJEU, forced by the strict literal interpretation of the InfoSoc Directive and the unclear relationship between its general principles and the provisions of other "vertical" copyright-related directives, has resulted in fragmented rulings. The Court's decisions have all been framed as exceptions to the general rule (*lex specialis* argument),[69] in contrast with the more traditional CJEU approach that strives to achieve horizontal uniformity in the terminology and principles used in a given area. The result was a lack of meaningful and coherent guidance in the much-needed contextual interpretation of the patchwork of EU copyright sources, and no consistent application of similar economic or value-based considerations on fact patterns that triggered similar policy questions.

It is quite telling how, on the contrary, the Court did not shy away from using exhaustion-like arguments in other areas, such as the definition of the boundaries of exclusive rights, and particularly of the right of communication to the public under Article 3 InfoSoc.[70] From *Svennson* on,[71] the CJEU has requested a new authorization from the rightholder every time the communication was directed to a "new public" not targeted by the first transmission, or it uses a "new technical mean".[72] Exactly as in the case of exhaustion of the right of distribution,[73] the Court deems the rightholder's control over the copy terminated upon the first voluntary making available of their work towards a certain public and through a specific technical means. This consideration is based on the presumption that the act was based on a pondered selection of the markets to exploit and produced an appropriate remuneration. Also the rationale inspiring the choice seems to be the same, with a distinction between exploited and yet-to-be-exploited markets, based on the reward theory and the notion of appropriate remuneration. Once the remuneration goals are met and the control over the work is no longer necessary to ensure a high level of protection to rightholders, and for copyright to achieve its functions, other conflicting rights and freedoms may prevail over copyright if needed.[74]

While precedents on Article 3 InfoSoc have been relatively consistent and consequential, decisions in the field of digital exhaustion did not show the same attention towards the economic and systemic effects of the rulings. Unfortunately, the CJEU did not change its approach when it was finally called to rule directly on Article 4(2) InfoSoc and the admissibility of a horizontal principle of digital exhaustion in EU copyright law. In *Tom Kabinet* - as we will see in paragraph 6 - the Court seemed to have denied for once and forever the extension of Article 4(2) InfoSoc to cover digital copies, with a decision that is as historical as concise, dry and orthodox in its arguments. Before delving into the details of the Grand Chamber's ruling, however, it may be useful to briefly analyze the legal and economic reasons that would have supported a decision in favor of digital exhaustion.

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[68] Ibid para 64.

[69] See Leistner (2014) p. 595; van Eechoud (2012) paras 90 ff. (with reference to the autonomous interpretation). On the teleological rather than contextual interpretative method used by the CJEU see Favale-Kretschmer-Torremans (2016) pp. 59-61.

[70] See, eg, Mezei (2015), para 159, and Benabou (2016), pp.351-378.

[71] Case C-160/15 *Nils Svensson and Others v Retriever Sverige AB* [2014] EU:C:2014:76, building on Case C-306/05 *Sociedad General de Autores y Editores de España (SGAE) v Rafael Hoteles SA* [2006] ECR I-11519; Case C-135/10 *Società Consortile Fonografici (SCF) v Marco Del Corso* [2012] EU:C:2012:140; Case C-607/11 *ITV Broadcasting Ltd and Others v TVCatchUp Ltd* [2013] EU:C:2013:147, and Case C-351/12 *OSA – Ochranný svaz autorský pro práva k dílům hudebním os. v Léc˘ebné lázně Mariánské Lázně as* [2014] EU:C:2014:110.

[72] After *Svensson* the various criteria have been reiterated by *inter alia*, Case C-466/12 *GS Media BV v Sanoma Media Netherlands BV and Others* [2016] EU:C:2016:644; Case C-117/15 *Reha Training Gesellschaft für Sport- und Unfallrehabilitation mbH v Gesellschaft für musikalische Aufführungs- und mechanische Vervielfältigungsrechte eV (GEMA)* [2016] EU:C:2016:379; Case C-527/15 *Stitching Brein v Jack Frederic Wullems (Filmspeler)* [2017] EU:C:2017:300.

[73] Similarly Benabou (2016), pp.351-378.

[74] Ibid, who emphasizes that the same arguments characterize the functional interpretation of the scope of exceptions in *FAPL* and Case C-201/13 *Johan Deckmyn and Vrijheidsfonds VZW v Helena Vandersteen and Others* [2014] EU:C:2014:2132 to Case C-117/13 *Technische Universität Darmstadt v Eugen Ulmer KG* [2014] EU:C:2014:2196, and *VOB*.

Their discussion will help tracing the interpretative questions still left unanswered by the Court, commenting on the soundness of the ruling, and drawing the possible paths ahead.

3. The need for digital exhaustion in EU copyright law: legal arguments

Introducing digital exhaustion under Article 4(2) InfoSoc could have brought consistency and order in the contextual interpretation of the plethora of EU copyright directives enacted from 1991 to date, and a much more coherent teleological reading of their provisions.

If *Tom Kabinet* had opened Article 4 InfoSoc to digital copies, the CJEU could have offered a more consistent teleological interpretation of EU copyright law provisions that, despite their fragmentation in different sources, largely share the same objectives, as in the case of Articles 4(2) InfoSoc and Software II. This would have been in line with the fulfillment of a series of goals of the InfoSoc Directive, such as the implementation of the four freedoms (Recital 3) and the non-distortion of competition in the internal market (Recital 1) in digital markets, which have taken over traditional markets for size and growth, and are in this sense functionally similar to the latter *vis-à-vis* the necessity of exhaustion.

From a systematic perspective, overstepping a strict literal interpretation of Article 4(2) InfoSoc could have solved a number of short-circuits caused by the patchwork harmonization of EU copyright law. The reference goes to (i) the unclear definition of the borders between distribution and communication to the public; (ii) the confusion triggered by the evolving dichotomy goods-services; (iii) the uneven extension of the autonomous concept of sale and of the functional interpretation of the sale-license dichotomy; (iv) the lack of uniformity in the methods of interpretation of Article 4(1) and (2) InfoSoc and, more generally, (iv) the negative effects of the *lex specialis* argument.

3.1. Updating the borders between distribution and communication to the public

An opening towards digital exhaustion could have offered the opportunity to contextually rethink and update, in a teleologically grounded manner, the boundaries between right of distribution (Article 4 InfoSoc) and right of communication to the public (Article 3 InfoSoc), the latter not being subject to the principle.

The CJEU intervened on the matter in *UsedSoft*,[75] stating in an *obiter dicta* that Article 6(1) WCT distinguishes the two rights on the basis of the type of transfer and use of the work, and limits distribution to cases where there is a transfer of ownership, making no distinction as to the tangible or intangible nature of the copy.[76] However, the Court severely limited the cogency of its argument by justifying the qualification of download as an act of distribution on the ground of the *lex specialis* nature of Directive 2009/24/EU, which (i) allows the non-application of Article 3 InfoSoc and, (ii) does not contain a provision on the right of communication to the public, making it possible to qualify any transfer as a distribution regardless of its tangible or intangible nature.[77]

UsedSoft found inspiration in that scholarly opinion that characterizes the making available right as covering on-demand transmissions that do not entail the permanent reproduction or retention of the copy, but only the possibility to access the work from a place and a time decided by the user.[78] In this sense, what distinguishes distribution from the act of making available the work was the effect of the transfer – conveyance of ownership

[75] Harshly criticized by Linklater (2014); Spedicato (2015); Vinje-Marsland-Gartner (2012) pp.97 et seq.; Senftleben (2012) p.2924; Dreier-Leistner (2013) pp.887 et seq.; Schulze (2014) pp. 9 et seq; Stothers (2012) pp.788-781.

[76] *UsedSoft*, para 52, as also noted by the Opinion of AG Bot, EU:C:2012:234, para 73. A similar distinction could be already found in Case C-456/06 *Peek & Cloppenburg* [2008] ECR I-2731, para 30.

[77] Although the obligations arising from the WCT would have suggested the need to cover the gap through the InfoSoc Directive, which allows it under Article 1(2)(a) InfoSoc. See Linklater (2014) p.15 and Mezei (2015), paras 121-123.

[78] Defined "digital interactive transmission" by one of the drafters of the Treaties, Ficsor (2002) p.203. See Mezei (2015), para 122, supporting the CJEU's conclusion in *UsedSoft*. See also Tjong Tjin Tai (2003) pp.208 et seq.

of a copy (tangible or intangible) in the first case, dematerialized transmission of a work upon user's request, without retention of any copy, in the latter case. Recitals 23 and 24 InfoSoc, which emphasize the notion of "transmission" when defining the right of communication to the public, supports this interpretation. The same can be said for Article 8 WCT which, when identifying the provisions of the Berne Convention left unprejudiced by the right of communication to the public, mentions only acts that presuppose the transmission of the work, such as recitation, public performance of cinematographic work, and broadcasting.[79]

The majority view has always opposed this reading, arguing that the Agreed Statement on Article 4 WCT clearly limits the right of distribution to the sale of tangible copies, thus distinguishing distribution and communication to the public on the basis of the tangible/intangible nature of the copy.[80] While this interpretation is in line with the text of the Treaty, however, it does not give any relevance to the difference in value and impact of the forms of exploitation covered by Articles 4 and 8 WCT, nor to the fact that such differences does not lie in the material or immaterial nature of the support, but in the degree and duration of user's control of the work. This originalist reading has made it impossible to adapt the provision to the evolution of copyright markets through a technologically-neutral, functional approach to the various forms of exploitations. It has also left uncovered – or improperly covered – an ample grey zone of conducts that fall between Articles 3 and 4 InfoSoc, such as the online transfer and retention of digital works as products, which represent a *tertium genus* within the traditional good-service dichotomy.

The CJEU could have solved the hiatus and ensured the equal treatment of functionally similar transactions by classifying the act on the basis of the type of transfer, and thus limiting Article 3 InfoSoc to transmissions that do not cause a transfer of ownership of the work. These revised criteria would have not clashed with the WCT, since no form of exploitation would have remained uncovered,[81] and they would have been in line with Article 8 WCT "umbrella solution", which leaves to state discretion the decision on how and under which right (or combination of rights) to classify acts of dematerialized transmissions.[82] The reading would have also been consistent with the EU decision to qualify the making available right as a form of communication to the public and not – as in the US[83] - as a form of distribution, which highlights their ontological distinction.[84] Last, a classification of the conduct on the basis of the type of transfer and not on the basis of the nature of the support would have also been compatible with Recital 29 InfoSoc, which excludes from exhaustion online **services** and the copies made by their users, and with a similar distinction made by the Commission in occasion of the implementation of the 1991 Software Directive I,[85] which defines the transmission of a work on-demand and without permanent transfer of the copy as a provision of service, and not as a transfer of good, as in the case of distribution.

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[79] Article 8 WCT leaves unprejudiced Article 11(1)(ii) BC (public performance and communication to the public of the performance of a work), Article 11*bis*(1)(i) and (ii) BC (broadcasting and other wireless communications, public communication of broadcast by wire or rebroadcast, public communication of broadcast by loudspeaker or analogous instruments, and related compulsory licenses), Article 11*ter*(1)(ii) BC (right of public recitation and of communication to the public of a recitation), and Article 14(1)(ii) BC (public performance of cinematographic works).

[80] See ALAI, *Opinion on Case C-263/18, NUV/GAU v Tom Kabinet*, Brussels, 12 September 2018, available at <http://www.alai.org/en/.../180912-opinion-tom-kabinet-case-en.pdf>. Accessed 13 June 2020, pp. 3-4.

[81] Ibid p.4.

[82] On the "umbrella solution" see, *ex multis*, Ficsor (2002) pp.145 et seq; Ricketson-Ginsburg (2006) pp.741-748; Reinbothe-von Lewinski (2015) pp.125-128.

[83] Information Infrastructure Task Force, 'Intellectual Property and the National Information Infrastructure: The Report of the Working Group on Intellectual Property Rights', September 1995, pp.212-214; see Pallante (2013) pp.326 et seq. Federal courts are split on the admissibility of the making available right under the US Copyright Act. Among the most recent landmark decisions, see *Sony BMG Music Entertainment et al v Joel Tenenbaum*, 663 F3d 487 (2011), while in favor *Capitol Records Inc et al. v Jammie Thomas-Rassed*, 692 F.3d 899 (2012).

[84] But see, contra, Linklater (2014) para 22.

[85] Explicitly in Answer by Commissioner Monti to Oral Question H-0436/95 by Arthur Newens, MEP (11.7.1995), Debates of the EP, No. 466, 175.

This was not, however, the route that the CJEU decided to take in *Tom Kabinet*. By missing the opportunity to reconceptualize the boundaries between Articles 3 and 4 InfoSoc, the Court left unsolved a number of related systematic short-circuits, strictly related to the communication to the public-distribution dichotomy.

3.2. Rethinking the dichotomy goods-services in line with the evolution of EU law

One of such short-circuits is the problematic qualification of works as goods or services, which comes into play due to the exclusion of services from the scope of the principle.[86]

Goods and services are not defined in the Treaty, and only fragmentedly in secondary sources, while the CJEU case law offers very fact-specific decisions and no general classificatory criteria. The Court qualifies goods as "products" or "objects" characterized by tangibility[87] and tradability,[88] and services as a residual category,[89] although also its rulings have been conflicting. Some decisions classify as services licenses, leasing of goods, and also tangible objects when they are offered as a step in the performance of a service contract.[90] In other instances, instead, the CJEU has excluded that to have tradability, and thus a good, it is necessary to have a transfer of ownership.[91] In the field of intangible products, the distinction between goods and services has been based on the material/immaterial nature of the support and of the means of distribution, rather than on the type of contract used for the transaction.[92] This has been also the approach adopted by secondary sources.[93]

Recital 33 Database rules out online databased from exhaustion since "unlike CD-ROM 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 will have to be subject to authorization where the copyright so provides". With a debatable choice, Recital 38 E-Commerce classifies as service also the online sale of goods.[94] The VAT Regulation circumscribed the supply of goods to "the transfer of the right to dispose of tangible property as owner"[95] – a circumstance that has led the Court to classify the online supply of e-books as a service,[96] until harsh scholarly critiques[97] and AG Opinions[98] underlining the inadequacy and inconsistency of the approach with principles of tax neutrality and equality caused the EU legislator to specify that printed and electronic books should be subject to the same reduced VAT rate.[99] More recently, however, the Consumer Rights Directive (CRD) has intervened on the problems triggered by the scope limitation to "goods" of several consumer law directives,[100] offering a hybrid definition of digital content as "data which are produced and supplied in digital form (…) irrespective of whether they are accessed through downloading or streaming, from a tangible medium or

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[86] Apart from the WCT, see already Commission, 'Green Paper on Copyright and Related Rights in the Information Society' COM(95) 382 final, p.47, and Commission, Report on the implementation and effects of Directive 91/250/EEC on the legal protection of computer programs, COM(2000) 199 final, p.17.

[87] See the overview provided by Smith-Woods (2005).

[88] As in Case C-7/68 *Commission v Italy* [1968] ECR I-0423, defining goods as products having a monetary value and being potentially object of a commercial transaction. From Case C-2/90 *Commission v Belgium* [1992] ECR I-04431, the Court eliminated the monetary value requirement.

[89] Particularly in Case C-155/73 *Sacchi* [1974] ECR I-0409.

[90] Eg Case C-451/99 *Cura Anlagen GmbH v ASL* [2002] ECR I-3194 (long-lease of cars).

[91] *FAPL,* para 83, commented by Dreier (2013) p.137.

[92] After *Sacchi*, Case C-52/79 *Procureur du Roi v Debauve* [1980] ECR I-0833.

[93] As emphasized by Karapapa (2014) pp.311-313.

[94] Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market, [2000] OJ L178/1.

[95] Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax [2006] OJ L347/1, Article 14(1).

[96] Case C-479/13 *Commission v France* [2015] EU:C:2015:141, and Case C-502/13 *Commission v Luxembourg* [2015] EU:C:2015:143.

[97] See especially Gaubiac (2004) pp.11-13.

[98] See, eg, the Opinion of AG Szpunar in Case C-174/15 *Vereniging Openbare Bibliotheken v Stichting Leenrecht* (VOB) [2016] EU:C:2016:856, para 61.

[99] Directive (EU) 2018/1713 amending Directive 2006/112/EC as regards rates of value added tax applied to books, newspapers and periodicals, OJ L-286/20, Article 1.

[100] Directive 2011/83/EU of the European Parliament and of the Council of 25 October 2011 on consumer rights, OJ L304/64 (Consumer Rights Directive).

through any other means".[101] Digital content supplied on a tangible medium is qualified as a good, while the CRD classifies contracts for digital content distributed on intangible supports as a *tertium genus,* that is "neither as sales contracts nor as service contracts".

Against this fragmented background, the use by Recital 29 InfoSoc of the good-service dichotomy to draw the borders of exhaustion has inevitably caused interpretative problems. AG Bot well emphasized them in *UsedSoft,* underlining the absurd results triggered by Recital 38 E-Commerce, which would exclude exhaustion in the case of online sale of a software delivered on CD-ROM, despite the fact that "the distinction as to whether the sale takes place remotely or otherwise is irrelevant for the purposes of applying that rule".[102] To tackle the short-circuit, some commentators have proposed the introduction of judicial "meta-criteria" to decide whether works offered online should be qualified as goods or services,[103] or advocated for the legislative amendment of Recital 29 InfoSoc.[104] In fact, while the rigidity of the legislative text would require an intervention of the EU legislator, an interim solution to the standstill could have still derived from a new systematic and teleological interpretation of existing sources.

From a systematic perspective, a revised interpretation of the boundaries between Articles 3 and 4 InfoSoc as the one suggested above would have also required, for internal consistency, to qualify as goods the object of Article 4 InfoSoc and as services the object of Article 3 InfoSoc. From a teleological perspective, the abandonment of a good-service distinction based on tangibility should have derived from the simple consideration that, in light of the current dominance of online forms of commercialization, its adoption results in the expunction of exhaustion from the system, to the detriment of the copyright balance.[105] To avoid the distortive results that could descend from treating similar transactions differently on the basis of the nature of the support and the delivery method, the Court should have offered an interpretation of the good-service dichotomy untangled from tangibility, and adopted classificatory criteria that are more consistent with the internal goals of the copyright system, in line with what the CRD did in the field of consumer law. *Tom Kabinet* could have represented the opportunity for the CJEU to revise its reading of Article 4(2) InfoSoc and intervene on the goods-services dichotomy by taking into full account the fact that the markets for tangible and intangible copies present similar shortcomings and thus a similar need for exhaustion, which has the goal to strike a balance between safeguarding the specific subject matter of copyright and avoiding an excessive partitioning and control of markets.[106] Again, the Court omitted reflecting on the issue, leaving untied yet another interpretative knot.

3.3. Standardizing the autonomous concept of sale throughout EU copyright law and streamlining the functional interpretation of the sale-license dichotomy

The autonomous EU notion of "sale" introduced by *UsedSoft* - an onerous transfer of ownership of a tangible or intangible object[107] - is consistent with the common core of Member States' laws and doctrinal restatements such as the DCFR,[108] but conflicts with the limitation to tangible objects imposed by Recital 29 InfoSoc. Similarly, Recitals 28 and 29 InfoSoc clash with *UsedSoft*'s functional requalification of licenses as sales in presence of specific features. It could be argued that such divergences are justified by the fact that Article 4

[101] Ibid Recital 19: "If digital content is supplied on a tangible medium, such as a CD or a DVD, it should be considered as goods within the meaning of this Directive. Similarly to contracts for the supply of water, gas or electricity, where they are not put up for sale in a limited volume or set quantity, or of district heating, contracts for digital content which is not supplied on a tangible medium should be classified, for the purpose of this Directive, neither as sales contracts nor as service contracts."
[102] Opinion of AG Bot in *UsedSoft,* para 76.
[103] Dreier (2013) 138.
[104] Mezei (2015) para 195.
[105] See Dreier (2013) 139, who defines the distinction between goods and services as no longer technology-neutral.
[106] *UsedSoft*, para 62, referring to Case C-200/96 *Metronome Musik GmbH v. Music Point Hokamp GmbH* [1998] ECR I-01978, Case C-61/97 *FDV* [1998] ECR I-5171, para 13 and *FAPL,* para 106.
[107] *UsedSoft,* para 42.
[108] See Von Bar-Clive-Schulte-Nolte et al. (2009), 278, IV. A. – 1:202: Contract for sale.

Software II opens the right of distribution to any channel of commercialization, while the InfoSoc Directive grounds its structure on a bipolar system where tangible distribution via sale characterized the material world, while the online environment features intangible communication to the public/making available via license. This conclusion, however, fails to consider that while in 1991 – the year of the first Software Directive – it was common knowledge that it was functionally and economically equivalent if a computer program was distributed on a tangible or intangible support, the same cannot be said for all protected works in 1996 (WCT) and 2001 (InfoSoc).[109] In fact, the different structure of the InfoSoc Directive compared to the Software Directive is a product of the times of their enactment, and not the consequence of a substantial difference in technological settings, business practices and market structure between software programs and other categories of protected works.

Also in digital markets to make a copy fully and permanently available to a customer in exchange "of a fee designed to enable the copyright holder to obtain a remuneration corresponding to the economic value of the copy of the work"[110] is legally, functionally and economically equivalent to transferring the ownership of the copy itself, *id est* to a sale, regardless of the medium of support and delivery.[111] In this sense, also under the InfoSoc Directive a narrow interpretation of the principle of exhaustion, not including "all forms of product marketing" having sale-like features may severely undermine the effectiveness of the principle and its rebalancing role between copyright, fundamental freedoms, competition and consumer welfare.[112]

The text of the InfoSoc Directive does not prevent the application of the same reasoning used in *UsedSoft* to interpret the notion of sale under Article 4(2) InfoSoc. Exactly as in the Software Directive II, in fact, the provision mentions the notion without referring to national laws, while the Preamble refers to the removal of obstacles to the correct functioning of the internal market as one of the goals of the harmonization,[113] and points to need to strike a (fair) balance between copyright and conflicting rights and freedoms.[114] These elements of similarity would have allowed excluding the applicability of the *lex specialis* argument,[115] and suggested instead the opportunity to provide under Article 4(2) InfoSoc the same functional classification proposed in *UsedSoft,* both to guarantee uniformity in the interpretation of sale as an autonomous concept of EU law, and to avoid frustrating the balancing aims enshrined in the principle. *Tom Kabinet*, instead, skipped over this point, leaving now in EU copyright law two different notions of sale, and two different approaches to the sale-license dichotomy.

3.4. Streamlining the methods of interpretation of Article 4(1) and (2) InfoSoc

An opening towards digital exhaustion would have also allowed streamlining the methods of interpretation used by the CJEU for the two paragraphs of Article 4 InfoSoc. Called to define the boundaries of the right of distribution, the Court has always proposed a flexible, teleological reading of the conducts covered by Article 4(1) InfoSoc, justifying the inclusion of preparatory acts such as offers to sell and advertisement, even if not materializing in actual sales, with the need to achieve a high level of protection of rightholders.[116] On the contrary, Article 4(2) InfoSoc has been consistently subject to a strict literal interpretation that, by excluding

[109] Similarly, Mezei (2015) paras 142 ff.
[110] Ibid para 45.
[111] Ibid paras 45-47.
[112] Ibid para 49. This was the opinion of AG Bot in *UsedSoft*, para 63, with reference to *FAPL*, paras 105-106. Mezei (2015) para 98. On the contractual circumvention of exhaustion by EULAs see Liu (2001) pp.1339-1340; Reese (2002-2003) p.581, 614; Perzanowski-Schultz (2011) pp.901-907; Carver (2010) pp.1888 et seq. See also US Department of Commerce, Report to Congress: Study Examining 17 U.S.C. Sections 109 and 117 Pursuant to Section 104 of the Digital Millennium Copyright Act, March 21, 2001, http://www.copyright.gov/reports/studies/dmca/dmca_study.html. Accessed 13 June 2020.
[113] Recitals 1 and 3 InfoSoc Directive.
[114] Recital 17 Software Directive II; Recital 31 InfoSoc Directive.
[115] This argument was used by national courts to rule out such conclusion and state, again, the non-applicability of Article 4(2) InfoSoc on licenses similar to those used by Oracle. See, e.g., the overview provided by Savič (2015) pp.415 et seq.
[116] Eg Case C-516/13 *Dimensione Direct Sales Srl, Michele Labianca v Knoll International SpA* [2015] EU:C:2015:315, paras 33-34.

intangible objects, has frustrated the pursuance of the goals of the provision. Adopting a similar teleological interpretation of the two paragraphs would have harmonized the approach to the provision and its axiological architecture, allowing the fulfillment of all and not only part of its objectives. This was, once again, not the route followed by the Grand Chamber in *Tom Kabinet*.

3.5. Tackling the fragmenting effects of the *lex specialis* argument

To circumvent the obstacles created by the tangible-only literal reading of Article 4 InfoSoc and limit their side-effects on other areas of EU copyright law, the CJEU has made wide recourse of the *lex specialis* argument. The use of the theory in *UsedSoft* in order to exclude the application of Article 3 InfoSoc to the download of a software copy has been broadly criticized.[117] Scholars have correctly noted that the WCT does not distinguish between categories of protected works, but only requires an extension of copyright protection to software and databases.[118] It could be argued that the EU legislator took into account the different features of software programs and their market and wanted to regulate the sector differently on this basis. Yet, there are no textual and contextual elements that would back this assumption with certainty. The text of the 2009 Software Directive II, in fact, introduced only few amendments to the 1991 Software Directive I, and none of them in response to the enactment of the WCT in 1996, and its Preamble never mentions the intention to depart from the InfoSoc Directive. The *lex specialis* argument is based on Article 1 InfoSoc ("this Directive shall leave intact and shall in no way affect existing Community provisions relating to (…)") and Recital 20 InfoSoc, which states that the Directive should not prejudice the application of previous copyright-related directives. However, Recital 20 also underlines that the InfoSoc Directive builds on existing principles and rules and develops them in the context of the information society, suggesting that it should be conceptualized as an updated *lex generalis* and general framework for other copyright-related acts, if not otherwise specified. This reading would explain why the Software Directive II does not feature the communication to the public/making available right – a choice that would violate the WCT unless transmissions, retransmissions and on-demand access to software program were meant to be covered under the right of distribution.[119]

UsedSoft did not clarify the relationship between *lex generalis* and *leges speciales*, and subsequent cases have either tried to limit the scope of the decision (*Nintendo,*[120] *Ranks*) or contributed to the fragmentation of the system by using the *lex specialis* argument also in other areas (*VOB*). If *Tom Kabinet* had opened towards digital exhaustion under Article 4(2) InfoSoc on the basis of the policy arguments advanced in *UsedSoft,* the Court could have renounced to the *lex generalis-lex specialis* alibi, and clarified the relationship between the InfoSoc Directive and all the numerous copyright-related directives, operating a thorough reordering of the CJEU case law.

Digital exhaustion, however, was not only backed by numerous legal arguments. Strong economic considerations also advocated for its introduction, as much as – and in some instances more than – in the field of "material" copyright.

4. The economic rationale of digital exhaustion

In response to the steady shift towards new online digital business models, which have largely outgrown material forms of commercialization,[121] exclusive rights have been adjusted to meet the needs of the new environment,

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[117] As in *UsedSoft*, para 51.

[118] See, eg., Spedicato (2015) pp.49-50, and Mezei (2015) para 179.

[119] But contra Linklater (2014) para 27.

[120] Case C-355/12 *Nintendo Co. Ltd, Nintendo of America Inc., Nintendo of Europe GmbH v PC Box Srl and 9Net Srl* [2014] EU:C:2014:25.

[121] See, e.g., Tweney, E (2010) 'Amazon Sells More E-Books Than Hardcovers', WIRED (July 19, 2010), <http://www.wired.com/epicenter/2010/07/amazon-more-e-books-than-hardcovers>. Cheng (2010) Forget the Box: Downloads Dominate Online Software Purchases, Ars Technica (May 28, 2010), <http://arstechnica.com/software/news/2010/05/forget-the-box-downloadsdominate-online-software-purchases.ars>. Accessed 13 June 2020.

while limitations have remained largely unharmonized and constrained in their application.[122] Exhaustion followed this trend, despite economic evidence highlighted the positive impact the principle would have had in by fostering opportunities and tackling distortions that are characteristic of the digital environment,[123] and the positive results it would have in fostering greater access and preservation of works, protecting privacy and decreasing transaction costs.[124]

One of the main economic effects of exhaustion is the reduction of the social cost of copyright monopoly. When applied, the principle allows the creation of secondary markets, which helps consumers to recoup by resale the cost of acquisition of protected works, stimulates competition and the development of effective distribution models and increases, as a result, the availability and affordability of copies.[125] The increased competition incentivizes rightholders to decrease prices, cover more geographical markets, and engage in positive price discrimination to attract low-income consumers back from second-hand markets.[126] The same happens in the digital environment, where copyright owners can exercise a much more pervasive control and discrimination over access and use of protected works. Rightholders have strongly opposed digital exhaustion, flaunting an increased risk of piracy and cannibalization of the original market of their works, which would ultimately make it impossible for them to price-discriminate, thus decreasing affordability and accessibility of works and hitting consumer welfare.[127] Yet, none of these arguments have been supported by strong empirical evidence, while several economic studies have confuted them and identified technological measures capable of tackling these risks and avoiding unfair competition.[128] Hints of this reasoning emerge in *UsedSoft,* which points at the increased need for exhaustion in the digital environment, and underlines the existence of technical solutions which can ensure the functional equivalence of tangible and digital copies.

The rise of secondary market would also help increasing access to out-of-commerce and orphan works, with positive effects for the preservation of cultural heritage.[129] This is particularly important in light of the pervasive control exercised by rightholders in the online environment, which may allow them to withdraw their works from the market very quickly.[130]

Also privacy, secrecy and competition would be protected and fostered by digital exhaustion. Severing rightholder's control over subsequent transfers of the work, the principle makes it impossible to track and identify subsequent buyers.[131] This prevents consumers' profiling,[132] reduces the impact rightholders may have on competitive reverse engineering and product review,[133] and avoids chilling effects on access which may rise if and when consumers are afraid of being tracked when "consuming" sensitive and/or controversial content.

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[122] See, among the earliest studies, Litman (2006) pp. 46 et seq.; Mazziotti (2008), pp.15-39, 77-109; Netanel (2008), pp. 54-80; Pistorius (2006) pp.47 et seq; Rimmer (2007); Lessig (2004), Boyle (2003) pp.33 e seq.

[123] The most comprehensive being Perzanowski-Schultz (2011).

[124] See Liu (2001); Reese (2002-2003); Van Houweling (2008) pp.885 et seq.

[125] As in Reese (2002-2003), 587.

[126] See Douglas Lichtman, First Sale, First Principles, Media Institute (April 26, 2010) <http://www.mediainstitute.org/new_site/IPI/2010/042610_FirstSale.php>. Accessed 13 June 2020.

[127] Perzanowski-Schultz (2011) 895; Davis (2009) pp. 370-371, but contra Tjong Tjin Tai (2003) p.210; Ruffler (2001) p.378; Kawabata (2013) p.76.

[128] Eg Gordon (1998) pp.1367 et seq., who demonstrates that secondary markets price-discriminate better than monopolistic marketsM Ghose-Smith-Telang (2006), p.3, report data proving that 84 percent of used books sold on Amazon are purchased by buyers who would have not been able or willing to pay the price set for the original copy; see also Hess (2013) p.1968.

[129] Reese (2002-2003), pp.594-5, 599.

[130] Mulligan-Schultz (2002), pp.451 et seq., and the empirical evidence reported in Anna Vuopala, Assessment of the Orphan Works Issue and Costs for Rights Clearance (May 2010), <http://ec.europa.eu/information_society/activities/digital_libraries/doc/reports_orphan/anna_report.pdf>. Accessed 13 June 2020.

[131] See Cohen (1996) p. 993.

[132] Ibid.

[133] Perzanowski-Schultz (2011) p. 896.

Such effects are particularly important in the digital environment, where the possibility of tracking, profiling and controlling users' and competitors' behaviors are exponentially increased.

Exhaustion may also reduce transaction costs. By severing rightholders' control over the use of the work after the first sale, the principle makes it any contrary contractual agreement unenforceable, thus standardizing by law the terms of use of protected works. In this sense, exhaustion would be ever more necessary in the digital environment, which features a great variety of complex End Users License Agreements (EULAs)[134] that dictate different rules depending on the types of work, prices, and business models involved. This increases information and transaction costs, generates greater market inefficiencies, and reduces consumer welfare by driving consumers' behaviors towards non-rational or scarcely informed decisions.[135] A partial standardization of EULAs terms would help tackling this typical digital market failure, with undoubtedly positive results.

Exhaustion may also carry further benefits by triggering innovation and platform competition.[136] Copyright owners are incentivized to invest in the development of new versions, additional features and premium content to remain attractive against secondary markets,[137] and to devise new business models to remain competitive towards the same audience.[138] The severance of rightholders' control over subsequent conveyances of the copy may help decreasing consumer lock-in, which arises when the cost of switching from the current product to a new, more competitive one is too high, and creates high barriers to entry for newcomers and their innovation. By authorizing the resale in secondary markets, in fact, exhaustion allows consumers to recoup part of the sums spent in buying the copy, thus decreasing switch costs.[139] At the same time, the availability of low-cost copies that are not under the control of copyright owners makes it possible for newcomers to innovate without risking to be hindered by rightholders, who would use their exclusive rights to block new products competing with their works or forms of exploitation.[140]

The clear economic advantages that digital exhaustion could bring, together with the limited risks for the original market of the work and the possibility to control them through technological measures of protection, makes the Grand Chamber's "nay" in *Tom Kabinet* ever harder to be explained.

5. The last act of the digital exhaustion saga? The Grand Chamber ruling in *Tom Kabinet* (C-263/18)

Despite the plethora of legal and economic arguments that would have supported the admissibility of digital exhaustion under Article 4(2) InfoSoc, in *Nederlands Uitgeversverbond and Groep Algemene Uitgevers v Tom Kabinet Internet BV and Others* the CJEU decided to opt for a traditional literal interpretation of existing sources, and denied the extension of the principle to digital copies.

5.1. The facts

The historical referral stemmed from a Dutch proceeding in front of the Rechtbank Den Haag (The Hague District Court) between the Dutch Publishers Association (Nederlands Uitgeversverbond – NUV) and the General Publishers Group (Groep Algemene Uitgevers – GAU), and Tom Kabinet, which operated from June 2014 a virtual market for second-hand e-books. This was only the last act of a much longer judicial saga, which

[134] As in Van Houweling (2008) pp.897-898.
[135] Ibid, pp.932-933, reporting empirical studies that evidence that consumers tend to ignore contractual terms unless they are essential to the purchase.
[136] Broadly Perzanowski-Schultz (2011) pp.897 et seq.
[137] Ibid, p.898.
[138] The same effect of creating incentives to innovation is attributed to fair use. See von Lohmann (2008) pp. 829 et seq.
[139] Perzanowski-Schultz (2011), p.990.
[140] As Netflix, which used the first sale doctrine to commercialize titles which rightholders kept out from online distribution deals. See Transcript of Netflix, Inc. Q3 2009 Earnings Call (Oct. 22, 2009) (statement of Netflix CEO Reed Hastings), <http://seekingalpha.com/article/168407-netflix-inc-q3-2009-earnings-call-transcript>. Accessed 13 June 2020.

started in July 2014, when NUV and GAV requested an injunction to stop Tom Kabinet's activities on ground of copyright infringement before the Rechtbank Amsterdam (Amsterdam District Court). The district court rejected their claims, arguing that closing the website would have been disproportionate compared to the uncertainty surrounding the applicability of the *UsedSoft* doctrine to e-books.[141] Upon appeal, the Gerechtshof te Amsterdam (Amsterdam Court of Appeal) confirmed the first instance decision, but enjoined Tom Kabinet not to allow the sale of unlawfully downloaded e-books.[142] To comply with the judgment, from June 2015 the platform changed its business model and became a direct trader through the "Tom Leesclub" (Tom's Reading Club), based on a closed membership structure.

The club offered second-hand e-books for a fixed price (€1.75) to members, who paid a monthly subscription of €3.99. E-books were either bought by Tom Kabinet or donated by its members, who received in exchange a discount of €0.99 on the next monthly fee. In the latter case, members provided a link to download the copy, declaring that they did not keep a copy for themselves. Tom Kabinet uploaded on its platform the copy from the retailer's website, and watermarked it to certify its lawful origin. From November 2015, the monthly subscription was terminated, the e-book price set to €2, and members were required to acquire credits in order to purchase an e-book, either by donating a copy or by buying one.

NUV and GAV filed a request for injunction before the Rechtbank Den Haag to stop Tom Kabinet from communicating to the public their affiliates' protected works. The court excluded that the platform operated a communication to the public, since its members were not an indefinite and large number of individuals,[143] while it left open the question of whether or not the reproduction necessary to transfer the file between buyer and seller was legitimate.[144] Only Tom Kabinet's retention of the copy on its catalogue after its sale was judged in violation of the reproduction right.[145] The Court believed that the *UsedSoft* doctrine could be applied by analogy to Article 4(2) InfoSoc, but admitted the uncertainty surrounding the matter in the CJEU case law,[146] and argued that the case could not be solved without the help of the highest EU court. On this basis, it referred the case to the CJEU, asking – in line with *UsedSoft* - (i) whether the right of distribution and its exhaustion under Article 4 InfoSoc covers also the making available of the file via download, for an unlimited period and for a price which corresponds to the economic value of a copy of the work; (ii) whether and under which conditions the transfer of a legally obtained copy implies also consenting to reproductions necessary for the lawful use of the copy (Article 2 InfoSoc); and (iii) whether Article 5 InfoSoc would in any case authorize acts of reproduction of a lawfully obtained copy on which the right of distribution has been exhausted.

5.2. AG Szpunar's Opinion

To address the questions, AG Szpunar followed three lines of reasoning - legislative, case-law based and teleological.[147]

The core legislative argument centered on the qualification of the download of digital copies as an act of communication to the public (Article 3 InfoSoc) or distribution (Article 4 InfoSoc). The Opinion pointed to the fact that the drafters of the WCT purposefully offered an "umbrella solution" to classify downloading, in light of its mixed nature, favoring the right of communication to the public but offering to contracting parties

[141] Rechtbank Amsterdam, *Nederlands Uitgeversverbond and Groep Algemene Uitgevers v Tom Kabinet Internet BV et al,* C/13/567567/KG ZA 14-795 SP/MV (1 July 2014), NL:RBAMS:2014:4360.
[142] Gerechtshof Amsterdam, *Nederlands Uitgeversverbond and Groep Algemene Uitgevers v Tom Kabinet*, Case 200.154.572/01 SKG (20 January 2015), NL:GHAMS:2015:66. The Court proposed a broader reading of Article 4(2) InfoSoc under §62 of the *UsedSoft* judgment, which suggests that the principle of exhaustion should be limited only if necessary, to protect the essential function and specific subject matter of copyright (Ibid para 3.5.3-4).
[143] Ibid paras 5.11-5.17.
[144] Ibid paras 5.20-5.21.
[145] Ibid para 5.22.
[146] Ibid paras 5.26-5.27.
[147] Opinion of AG Szpunar in *Nederlands Uitgeversverbond and Groep Algemene Uitgevers v Tom Kabinet Internet BV et al* [2019] EU:C:2019:697.

the possibility to opt for the distribution right.[148] Since, however, the WCT provides only a minimum level of protection, the AG maintained that legislators choosing distribution would need to cross out exhaustion, in order to offer the same degree of protection granted under the right of communication to the public, which does not contemplate the principle.[149]

The Opinion mentioned only briefly the Agreed Statement on Articles 6-7 WCT and its limitation of the notions of "original" and "copy" to tangible objects, qualifying it as a text of weak cogency.[150] It focused, instead, on Recitals 24, 25, 28 and 29 InfoSoc, which the AG identified as illustrative of the position adopted by the EU legislator when implementing the WCT.[151] While admitting the ambiguity and inappropriateness of Recital 29's qualification of online sales as services, the AG had no doubt that the InfoSoc preamble places "all forms of online exploitation of the works" under Article 3 Infosoc.[152] He also noted that Article 4 InfoSoc, which connects distribution to the sale or other transfer of ownership, backs this interpretation, since (a) digital files are intangible, thus not subject to the right of property and (b) parties' rights and obligations with regard to the making available of works online are regulated by conventions, and their freedom of contract cannot be limited by exhaustion.[153] In any event – he added – digital exhaustion could not be admitted since the reproduction needed to transfer the "used" file would run counter to Article 2 InfoSoc, and would not be authorized by any exception under Article 5 InfoSoc.[154] The Opinion also discarded the objection that Article 3 InfoSoc would cover only transmissions directed to more individuals, and would thus not apply to Tom Kabinet's business model. Consolidating the CJEU's precedents on the notion of public, the AG noted that "[w]hat matters is not the number of persons to whom the communication is made but the fact that the person at the origin of that communication addresses his offer to persons not belonging to his private circle. In that case, a single acquirer may therefore constitute a public."[155]

The Opinion felt also the need to distinguish *Tom Kabinet* from *UsedSoft*. The AG underlined how software programs need to be run on a computer to be used, and this makes the nature of the medium of distribution irrelevant.[156] At the same time, he noted that the fact they are always commercialized via license since they need maintenance and updates justifies the functional equivalence *UsedSoft* drew between sale and license.[157] The Opinion also highlighted that downloads could be qualified as distribution since the Software Directive II does not regulate the right of communication to the public, and referring to Article 3 InfoSoc would have undermined the *lex specialis* nature of Directive 2009/24.[158] Furthermore, the Software Directive does not exclude exhaustion in case of intangible copies, and provides for an exception (Article 5(1)) that allows all reproductions necessary for the use of the program by the lawful acquirer. The AG deemed the distinction between software and other works also justified by the reduced impact exhaustion has on the original market of software programs, since software is used longer than traditional works and is subject to a quicker obsolescence and loss of value.[159]

To clarify the doubts triggered by *VOB*, the Opinion limited its reach by referring to the *lex specialis* nature of Directive 2006/115, the public policy objective of the exception, and the fact that the WCT does not mention lending.[160] The AG admitted that, by stating that Member States can subordinate the exception to the lawful

[148] Ibid para 33.
[149] Ibid para 34.
[150] Ibid para 35.
[151] Ibid para 37.
[152] Ibid para 38.
[153] Ibid paras 43-44.
[154] Ibid para 49.
[155] Ibid para 42.
[156] Ibid paras 57-58.
[157] Ibid para 59.
[158] Ibid para 63.
[159] Ibid para 62.
[160] Ibid paras 68-70.

first sale of the digital copy, the CJEU has implicitly accepted digital exhaustion, but minimized the *obiter* as irrelevant for the *Tom Kabinet* case.

The Opinion also showed full awareness of the heated debate on the teleological arguments favoring digital exhaustion.[161] Yet, it excluded that they could justify a disregard toward the letter of the law, both because they are counterbalanced by similarly strong economic arguments, and because they would request a general policy reform, which remains competence of the legislator.[162] In any event – the AG stated – permanent downloads are forms of exploitation destined to be "relegated to the past", thus any decision admitting digital exhaustion would only "resolve a problem that does not really need to be resolved" anymore.[163]

5.3. The Grand Chamber decision

The Grand Chamber, from the pen of Rapporteur Ilešič, followed to a large extent the arguments of AG Szpunar, albeit with a much more concise reasoning and several omissions. The CJEU excluded that a mere literal interpretation of the InfoSoc Directive could be sufficient to address the questions raised by the referral, and proceeded instead with a contextual and teleological reading of the provisions, supporting them with scant economic considerations.

Inspired by Recital 15 InfoSoc, which explains that Directive 2001/29/EC is (also) a tool to implement the WCT, the Court designed the boundaries between Articles 3 and 4 InfoSoc in line with Articles 8 and 6(1) WTC and the related Agreed Statement which, read together, limit the scope of the distribution right to tangible objects.[164] To support the argument, the CJEU referred (a) to the explanatory memorandum to the InfoSoc Directive, which includes under Article 3 InfoSoc on-demand transmissions and any communication "other than the distribution of physical copies",[165] and (b) to a number of InfoSoc Recitals (4, 9, 10, 23, 28, 29), which require a broad interpretation of the right of communication to the public, exclude exhaustion in case of online services, and limit distribution to tangible copies.[166] In the opinion of the Court, *UsedSoft* would not run counter to this reading, for it concerns the application of a *lex specialis*, where, differently than in the InfoSoc Directive, the EU legislator wanted to explicitly assimilate tangible and intangible copies of computer programs.[167]

The CJEU used a similar distinguishing argument when comparing the economic justifications supporting the *UsedSoft* decision with the features of traditional works and their markets. Sharing the AG Opinion, the Court noted that differently than software, the sale of a printed book is not functionally equivalent to the transfer of an e-book, since digital files are not subject to deterioration by use, and the exchange of used copies does not entail additional effort or cost.[168] These characteristics make the second-hand market of digital copies have a greater impact on the original market of the work, and thus on rightholders' ability to obtain an appropriate reward.[169] Implicitly, the CJEU seemed to assume that digital exhaustion would hamper the fulfillment of the essential function of copyright as defined by its early case law,[170] that is granting to rightholders an appropriate remuneration from the exploitation of their works.

Once it ruled out the applicability of Article 4 InfoSoc, the Court had to verify whether Tom Kabinet's transfer of digital copies could amount to an act covered by Article 3 InfoSoc, that is whether the conduct (a)

[161] The AG devotes all his final remarks to "balancing the interests involved", summarizing the main arguments raised in the literature in support of digital exhaustion (ibid paras 78-87) and against it (paras 88-97).
[162] Ibid para 98.
[163] Ibid para 95.
[164] *Tom Kabinet*, para 39.
[165] Ibid para 44.
[166] Ibid paras 49-51.
[167] Ibid para 55.
[168] Ibid para 57.
[169] Ibid para 58.
[170] As seen supra, n

represented an act of communication and (b) was directed to a public. The CJEU considered both requirements met. As to the first requirement, Tom Kabinet's conduct was qualified as a communication since the platform made works available for on-demand transmission, and according to the Explanatory Memorandum to the InfoSoc Directive "it is not relevant whether any person actually has retrieved [the work] or not".[171] As to the second requirement, the Court considered both its precedents and the Explanatory Memorandum, which clarify that a "public" is present also when "several unrelated persons (…) may have individual access (…) to a work", and when their number is not too small, considering not only "the number of persons able to access the work at the same time, but also how many of them may access it in succession".[172] On this basis, it ruled that Tom Kabinet directed its offer to a "public", since any interested person could enroll in the reading club, while no technical measure ensured that e-books were downloaded only by one user at a time and that users lost access to copies once they sold them back to the platform.[173] The fact that EULAs often excluded the possibility of resale was also considered enough to qualify Tom Kabinet's members as a new public not envisioned by rightholders when they first commercialized their works.[174]

6. Neglected inconsistencies and a new question mark

By reducing the questions posed by the referring court to the mere alternative between Articles 3 and 4 InfoSoc to classify Tom Kabinet's conduct, the CJEU could avoid facing the most pressing interpretative problems triggered by the digital exhaustion debate. In this way, the Grand Chamber left us with a number of neglected inconsistencies, and new question marks on the extent to which Article 3 InfoSoc may really cover all forms of digital distribution of protected works.

By asking the same questions raised in *UsedSoft*, the Rechtbank Den Haag wanted to push the Court to clarify also under the InfoSoc Directive the conceptual distinction between sale and licenses and goods and services when applied to new formats and channels of exploitation. The reasoning in *Tom Kabinet* completely skipped over this point, regardless of its key systematic importance to define the conceptual structure of Directive 2001/29/EC. In fact, the ambiguities triggered by Recital's 29 reference to "services" to draw the borders of exhaustion, together with the limitation of distribution to "sale and other transfers of ownership", would have required the CJEU to clarify whether digital copies offered online and transferred permanently for a price corresponding to their full value should be qualified as goods subject to a sale or services subject to a license. Instead, the Court opted for a blind reference to the WCT, reducing the distinction between distribution and communication to a mere separation between material and online forms of exploitation, and thus completely disregarding as irrelevant the link that the InfoSoc Directive traces between distribution-sale-good and communication-license-services. Similarly, it did not verify whether its interpretation was still in line with systematic changes in EU law such as the CRD qualification of digital content as *tertium genus* between goods and services, or the treatment of e-books as equal to books for VAT purposes. More generally, by not giving enough weight to the link between its early case law and the "sale-like vs service-like rights" dichotomy used by Recital 29 InfoSoc, the CJEU missed the opportunity to link the teleological interpretation of Article 4(2) InfoSoc to the essential function doctrine, on which the Court built its doctrine of Community exhaustion. This would have made the application of the principle dependent on the characteristics of the work, excluding it every time the control over subsequent exploitations was needed to ensure that right-holders obtained an adequate remuneration, thus helping in the achievement of more teleological consistency, systematic coherence and legal certainty in EU copyright law.

The Grand Chamber has also introduced additional inconsistencies within the tangles of CJEUs copyright doctrines. Just to mention a few, the limitation of the functional reading of the sale-license dichotomy to

[171] Ibid paras 63-64.
[172] Ibid paras 67-68.
[173] Ibid para 69.
[174] Ibid para 71.

software produces a *de facto* fragmentation of the notion of sale in different copyright areas. It also remains a systematic mystery how can *Tom Kabinet* coexist with *VOB,* where the Court stated that Member States may introduce digital exhaustion as a precondition for the lawful enjoyment of the public lending exception on e-books. Should this not be enough, the decision instills yet another question mark in the CJEU case law.

When explaining why the platform's conduct should be understood as a communication to the public under Article 3 InfoSoc, the Court hinted at the fact that there might be cases where the online distribution of protected works could fall outside the scope of the provision, as if a grey zone might exist between Articles 3 and 4 InfoSoc. Paragraph 69 of the judgment, if read *a contrario,* seems to suggest that in case of a communication protected by technological measures which ensure that (a) only one copy of the work could be downloaded at a time, and that (b) a user could not access the copy once she has alienated it, the number of persons who have access to the same work would not be substantial enough to meet the requirements set by the CJEU's case law to amount to a "public". Said otherwise, the presence of technological measures having specific characteristics may exclude the application of Article 3 InfoSoc to conducts such as the one performed by *Tom Kabinet*. In such cases, the non-applicability of Article 4 InfoSoc would leave these forms of online distribution of digital works unclassified. In the future, this may require the Court either to broaden the notion of public beyond its current borders, or to change its interpretation of the notion of distribution, in order to make sure that no conducts remain outside the scope of InfoSoc exclusive rights.

7. Conclusions: the road ahead

After years of heated scholarly exchanges, the Grand Chamber's ruling in *Tom Kabinet* seems to have put an end to the digital exhaustion debate, ruling out its admissibility under Article 4(2) InfoSoc. The decision did not come unexpected, for it was in line with the literal interpretation of the InfoSoc Directive, the WCT and its Agreed Statement which the Court had already favored in a number of decisions that indirectly touched upon the matter. Yet, *Tom Kabinet* left unanswered most of the challenges and shortcomings triggered by the digital revolution and by the massive changes in the forms of commercialization of protected works, now heavily titled towards online distribution and consumption.

While the construction of WCT and InfoSoc Directive could still work in 2001, new types of exploitation of protected works have soon challenged its functioning. When digital copies are fully and permanently transferred online, the transfer is functionally closer to a sale/distribution than to a communication to the public, and the copy is enjoyed as a product and not as a service. This triggers the same protection and balancing needs that a material distribution would engender. Yet, the tangible-only reading of Article 4 InfoSoc forces the classification of such acts under Article 3 InfoSoc. The digital environment is thus deprived of exhaustion, its positive effects in terms of access, availability and affordability of works, and its balancing role *vis-à-vis* competition, innovation and a set of conflicting rights and freedoms – chiefly property, privacy and the freedom of movement of goods. At the same time

The CJEU has tried to minimize the short-circuits created by the tangible-intangible dichotomy in other areas of copyright law with an ample recourse to teleological and systematic arguments to carve out exceptions to the InfoSoc and WCT, as in *UsedSoft* and *VOB*. This has created a fragmented system where the InfoSoc Directive remains a weak *lex generalis* against a plethora of *leges speciales*, featuring different boundaries between exclusive rights and different definitions of key concepts. *Tom Kabinet* constituted the opportunity to set things right and provide a systematic reordering that could clarify the degree of standardization introduced by the WCT, the role of the InfoSoc as *lex generalis*, the borders between Articles 3 and 4 InfoSoc, the good-service dichotomy, and the requirements to assess the functional equivalence of sale and license and of tangible and intangible supports. Instead, with its simplistic answer, the CJEU has neglected to tackle the contextual, conceptual and teleological inconsistencies created by its case law and by EU directives, and introduced additional question marks as to the grey zone between Articles 3 and 4 InfoSoc.

The most appropriate solution to the stalemate would still be a legislative intervention on the InfoSoc Directive, which, however, does not feature among the priorities of the EU legislator. Absent a move from the EU legislator, a judicial solution to temporarily bridge the regulatory gap could come from two different paths.

The first path may be pursued in the context of a new referral to the CJEU on Article 4(2) InfoSoc. In fact, while *Tom Kabinet* promised to close the debate on digital exhaustion, its omissions and pitfalls may well justify the opening of a new chapter in the judicial saga on the principle. This solution would aim at stepping over the rigidity of Article 4(2) InfoSoc through its contextual and teleological interpretation, guided by the horizontal application of Treaty provisions. This latter move would be justified by the fact that, in its current form, Article 4(2) InfoSoc leaves digital markets short of measures balancing copyright with competition, freedom of movement of goods, cultural policy objectives and fundamental rights such as property and privacy.

Along with the implementation of *UsedSoft* teleological arguments to state the functional equivalence of tangible and intangible copies and of sale and license in presence of specific requirements, two arguments would support overcoming the tangibility requirement of Recital 28 InfoSoc when drawing the borders of exhaustions and the boundaries between Articles 3 and 4 InfoSoc. The first is that all conducts that cannot be put under Article 3 InfoSoc need to be "hosted" under another right in order to ensure that rightholders are offered effective protection. This would justify the extension of the distribution right to cover digital works if, for instance (i) the license commercializing the work is judged functionally equivalent to a sale/other transfer of ownership, or (ii) technological measures are put in place in a manner that the work itself is not communicated to a number of people that is substantial enough to constitute a public under Article 3 InfoSoc. The second argument is grounded on the observation that a literal interpretation of Article 4(2) InfoSoc hinders the realization in the digital environment of those Treaty provisions that have underlined the principle of exhaustion since its CJEU's origins in the 1970s (freedom of circulation of goods and protection of competition in the internal market), and of other Treaty objectives such as those related to cultural policies and to the protection of fundamental rights. This circumstance justifies the horizontal application of the Treaty provisions to interpret EU law in a manner that leads to the realization of Treaty goals, which in the case of Article 4(2) InfoSoc would entail the introduction of digital exhaustion, provided that the first sale of the work ensures an appropriate remuneration for the rightholder. The reproduction necessary to finalize the transfer of the work could be either covered by Article 5(1)(b) InfoSoc or by the *FAPL* and *Ulmer* doctrine, which allows extending the scope of an exception or limitation when needed to ensure that they can still perform their functions.

Should this path prove unsuccessful, the second interpretative option would be for a national court to revert to a claim of invalidity of Article 4(2) InfoSoc under Article 51(2) CFREU for disproportionate restriction of the right to property (Article 17 CFREU), the right to respect of one's private life (Article 7 CFREU) and, in specific cases, the freedom to conduct a business (Article 16 CFREU) of the buyers of digital works, caused by the restriction of the scope of Article 4(2) InfoSoc to tangible copies only. The proportionality assessment, focused on the appropriateness and necessity of the limitation of exhaustion to tangible copies in order to effectively protect copyright, would be based on the model drawn by precedents such as *Digital Rights Ireland*,[175] and would test the appropriateness of the measure on the basis of the principle of equal treatment of comparable situations, and its necessity on the basis of the essential function and specific subject matter of copyright.[176]

The debate on digital exhaustion, in fact, is everything but exhausted. The question is now how long it will take for national courts to spot the omissions and flaws in *Tom Kabinet*, and revert back to the CJEU to get them solved – this time, hopefully, with more useful systematic results.

[175] Joined Cases C-293/12 *Digital Rights Ireland Ltd v Minister for Communications, Marine and Natural Resources and Others* and C-594/12 *Kärntner Landesregierung and Others* [2014] EU:C:2014:238, paras 38 and 47.
[176] I elaborate on these solutions in more details in Sganga (2019) paras 84-99.

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