

**Master of Transnational Law**

**THE EXHAUSTION GAME:**

Videogames and the doctrine of exhaustion on European Union's copyright law

Student: Ana Rachel Cal de Alencar

Student ID: 143821010

Supervisor: Tito Rendas

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## ABSTRACT

The debate over applying the doctrine of exhaustion to digital products protected by copyright is extensive and leads back to debates on international and national legislation. In the European Union, the legislation regarding exhaustion is limited to goods in tangible media, with no reference to digital exhaustion. Scholars and courts have discussed this subject over the years. Today, there is a tendency to judicialise the discussion on digital exhaustion in an attempt to obtain answers to its application in new technologies. The present thesis analyses the doctrine of exhaustion in light of the European Union's copyright legislation, as well as the decisions of the CJEU and national courts on the subject, especially regarding the videogame industry. The primary objective of the analysis is to show how the debate on the extension of the exhaustion doctrine to digital goods has influenced a change in the business model of the videogame industry and, consequently, in the form videogames are commercialised.

Keywords: exhaustion doctrine, copyright, videogames, digital exhaustion, subscription, Game as Service, Game as Product, distribution right, communication to the public.

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## ABBREVIATIONS

AG – Advocate General

CJEU – The Court of Justice of the European Union

ECJ – European Court of Justice (same as CJEU)

EU – European Union

EULA – End Users License Agreement

GaaP – Game as a Product

GaaS – Game as a Service

InfoSoc – Directive 2001/29/EC on the harmonisation of certain aspects of copyright and related rights in the information society [2001] OJ 2 167.

TPM – Technological Protection Measures

VAT – Value Added Tax

VR – Virtual Reality

WCT – The WIPO Copyright Treaty

WIPO – World Intellectual Property Organization

## 1. INTRODUCTION:

### 1.1. Background

The videogame market started in 1970 and has undergone numerous transformations to keep up with the changes arising from globalisation and technological advancements.

Among the technology products, videogames are one of the most heavily invested in their development and creation. During the Covid-19 pandemic, with social distancing and home confinement, the videogame industry show positive results. Companies such as Microsoft, Nintendo and Sony maintained their dominance and continue to invest in technology and innovation for the development of their games and software.

The videogames industry has specific characteristics that involve interfacing physical and digital products and creativity. Until recently, the videogames were only sold on cartridges, CDs or DVDs. However, with digitalisation, how software is developed and games are created and marketed has changed dramatically.

The digital transition has meant that distribution models have become diverse and what used to be commercialised through tangible products now has a digital and intangible form. If earlier, people collected several physical copies of games, today, they have digital game libraries.

The transaction through digital platforms now represents the major portion of the revenue of the videogames industry. For that reason, 'the debate has arisen as to whether players who have purchased videogames through these digital channels are entitled to resell their "used" copies – an activity not currently enabled by any of the major videogame distribution platforms'.<sup>1</sup>

The disconnection between the new digital reality and intellectual property legislation is notorious, especially regarding the copyright exhaustion doctrine. This doctrine was built on a model linked to tangible goods, which, over time, has become obsolete and has been demonstrating the need to fit the rule to the digital shift.<sup>2</sup>

Moreover, the treatment of digital content through various management forms 'raises issues of technical barriers to resale and reuse and the ability of technological forms of delivery to

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<sup>1</sup> Yin Harn lee, Copyright and gaming. in Tanya Aplin (ed), Research Handbook on Intellectual Property and Digital Technologies (Edward Elgar 2020) 44-62

<sup>2</sup> Aaron Perzanowski and Jason Schultz, 'Legislating Digital Exhaustion' [2015] 29(3) Berkeley Technology Law Journal 1535-1558

circumvent traditional channels of international trade.'<sup>3</sup> It means that the digital content and the way it is managed build barriers to resale and reusing it, and the technological form of delivery of this content is different from the traditional ways, so these digital transactions can easily circumvent the rules that were created to regulate the traditional forms of trade, including internationally.

## 1.2. Research Question

The present work will analyse the digital distribution models in the videogame industry from the perspective of copyright legislation, particularly the doctrine of exhaustion and its impacts on the protection of this intellectual property right.

The thesis aims to demonstrate how the doctrine of exhaustion has been applied to digital products in the light of European legislation and how its debate has influenced the form videogames that are commercialised. To achieve this goal, the thesis focuses on four questions that will be answered during the analysis:

- 1- What is the doctrine of exhaustion and the challenges to extending it to the digital realm?
- 2- How are the CJEU deciding about digital exhaustion, especially regarding hybrid products<sup>4</sup>?
- 3- Whether copyright law protects videogames, and how are the national courts deciding about videogames and digital exhaustion?
- 4- How is the new business model of the videogame industry affecting the doctrine of exhaustion?

The analysis made in this thesis is based on:

- a) The WIPO Copyright Treaty and Berne Convention, which are part of the International copyright framework.
- b) European Union copyright law, especially the Information Society Directive (InfoSoc) and the Software Directive.
- c) The CJEU and national courts case law related to digital exhaustion of copyright.

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<sup>3</sup> Shubha Ghosh and Irene Calboli, *Exhausting Intellectual Property Rights: a comparative law and policy analysis* (1st edn, Cambridge University Press 2018) 114

<sup>4</sup> hybrid products are products that are made with a combination of software and traditional works.

### 1.3. Method and Materials

In order to answer the research questions, this thesis used doctrinal, non-doctrinal and comparative legal research. The doctrinal is expressed by case law, opinions on Court judgements, textbooks, articles and legal publications. Moreover, the social-legal research (empirical) presents how the long debate about digital exhaustion affects society and videogame industry.

The research materials are legal and non-legal sources. The legal sources framework consists of European, national and international law, legal publications (such as articles, journals and books), and legal opinions. The non-legal sources such as reports and publications are used to give important information or concepts that are needed for the complete understanding of the thesis.

### 1.4. Structure

The thesis is structured into seven chapters. The first chapter provides the background of the thesis, the research questions, the delimitation of the research and the methodology and materials that were used. The second chapter addresses copyright protection requirements and explains the exhaustion doctrine and its application. In the third chapter, the thesis debates digital exhaustion and the CJEU's understanding of relevant case law. The fourth chapter analyses whether the videogames receive copyright protection, their legal nature, and how national courts decide cases related to digital exhaustion and videogames.

Chapter five provides key concepts and challenges of digital exhaustion, and the debate related to *lex specialis*, which was used as reasoning behind *UsedSoft*, *Nintendo* and *Tom Kabinet* cases. Finally, chapter six analyses the exhaustion evasion in the videogame industry and the changing business model. Chapter seven, the last, provides final conclusions.

## 2. COPYRIGHT LAW AND THE DOCTRINE OF EXHAUSTION

Copyright is a term used to describe creators' rights over their literary and artistic works. The Berne Convention, which deals with the protection of these works, on article 2, states that: 'The

expression "literary and artistic works" shall include every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression.<sup>5</sup>

Copyright law protects works that reflect an author's intellectual creation, such as works of literature, science and arts.<sup>6</sup> The work must be inside of copyright subject matter, needs to reflect the author's original or creative choices, and has to be expressed by that author somehow.

Moreover, to protect these works, the copyright law grants exclusive rights to the authors on the acts of reproduction, distribution and communication to the public to ensure the maintenance and development of creativity in the best interests of authors in order to provide economic and moral incentives for their productions. The Directive 2001/29/EC regulates these exclusive rights in the European legal system. In this thesis, the distribution right will be the focus.

The distribution right is foreseen by Article 4 (1) of the InfoSoc Directive, which states: 'Member States shall provide for authors, in respect of the original of their works or of copies thereof, the exclusive right to authorise or prohibit any form of distribution to the public by sale or otherwise'.<sup>7</sup>

Through that right, the works protected by copyright or their copies can only be distributed to the public by the author or someone authorised by him. However, copyright laws set limitations and exceptions on the protection granted in the pursuit of a balance between rightsholders and society, as well as to prevent a return to monopolies.<sup>8</sup>

There are several mechanisms to seek a balance of interests. The thesis will refer to only one of them, the doctrine of exhaustion, which aims to limit market control by the rightsholder, ensure proper remuneration to the author, and secure the property right over the copyright.<sup>9</sup>

The doctrine of exhaustion, also known as the first sale doctrine in the United States, originated in the judgment of the *Bobbs-Merrill v. Straus* case in 1908 by the U.S Supreme Court and was implemented through the Copyright Act. In European Union, the doctrine was debated for the

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<sup>5</sup> World intellectual property organization , Understanding Copyright and Related Rights (2nd edn, WIPO Publication 2016) < [https://www.wipo.int/edocs/pubdocs/en/wipo\\_pub\\_909\\_2016.pdf](https://www.wipo.int/edocs/pubdocs/en/wipo_pub_909_2016.pdf)>

<sup>6</sup> Case C-310/17, *Levola Hengelo BV v Smilde Foods BV* [2018] ECLI:EU:C:2018:899

<sup>7</sup> Directive 2001/29/Ec Of The European Parliament And Of The Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society [2001] OJ 2 167/10

<sup>8</sup> Péter Mezei, Copyright exhaustion : law and policy in the United States and the European Union (Cambridge University Press 2018) 6

<sup>9</sup> Mezei (n. 8) 11

first time by the CJEU in the judgment of some case law, which gave rise to the first vertically harmonisation by Council Directive 91/250/EEC. The horizontal harmonisation of the doctrine of exhaustion on the European Union just came years later through the InfoSoc Directive.

The doctrine of exhaustion imposes a limit on the author's exclusive distribution right. It allows a lawful owner to resell the original copyrighted works or copies thereof without the rightsholder's authorisation if it has been legally acquired through lawful distribution and with the transfer of ownership by the rightsholder or an authorised person.

Thus, in order to have the doctrine of exhaustion applied, the laws established criteria that must be recognised. The first condition is that the initial distribution must be made by the rightsholder or someone authorised by him, under his specifications and price. It means that the rightsholder is the one who holds the initial right to put his product on the market and set the purchase price to enable him to receive the proper remuneration for his creation.

Furthermore, the product/work sale must be carried out legally, i.e. there is no exhaustion in pirated or illegally distributed products. We can understand that products derived from theft or sold in disagreement with the licenses or contractual provisions as illegally distributed.<sup>10</sup>

It must be emphasised that the rightsholder can and must stipulate its distribution conditions, limiting himself to defining the value, time, form, and place of sale, not being allowed to enter into the product's resale realm to prohibit future resales.

Moreover, to apply exhaustion, the work has to be under copyright protection, and the sale has to transfer ownership to the lawful acquirer. It means that the doctrine of exhaustion does not apply to service-type uses.

The ECJ in *Coditel I*<sup>11</sup> and *Coditel II*<sup>12</sup> affirmed that service-like uses are not in the scope of the doctrine of exhaustion. The Court stated that ensuring a proper remuneration for the rightsholder is one of the essential functions of copyright. In the cases of cinematographic works, this profit comes from each performance and not from the sale of physical copies, as is the case with other artistic and literary works.<sup>13</sup> However, if the rightsholder's actions are intended to restrict trade

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<sup>10</sup> Mezei (n. 8) 8-9

<sup>11</sup> 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.

<sup>12</sup> Case C-262/81 *Coditel v CinéVog Films II* (Coditel II) [1982] ECR I-3381.

<sup>13</sup> Caterina Sganga, 'A Plea for Digital Exhaustion in EU Copyright Law' [2019] 9(3) JIPITEC. 23

between the Member States, Article 36 of the TEEC, may not apply, meaning the exhaustion could be enforced.

Another essential part of these cases is when the ECJ said that 'in relation to the requirements of the Treaty are not the same as those which arise in connection with literary and artistic works the placing of which at the disposal of the public is inseparable from the circulation of the material form of the works, as in the case of books or record'<sup>14</sup> In this phrase, the Court states that exhaustion is applicable on tangible works or works expressed in tangible carriers, such as books and audio discs.

The Coditel cases are from the early '80s. In this time, the tangible carriers were the only way to express literary and artistic works, the internet was starting, and only in 1982 the compact disk was released. Furthermore, the first case to affirm that exhaustion could be enforced after the first lawful distribution was *Deutsche Grammophon*<sup>15</sup> in 1971. It was unthinkable to have distribution without a physical carrier in this period. For that reason, the doctrine of exhaustion was created attached to tangibles ways.

The policy arguments on the doctrine of exhaustion were based on a world before digital technologies, primarily attached to physical means. As Péter Mezei<sup>16</sup> states, some commentators believe that the doctrine of exhaustion can only be applied if additional requirements are fulfilled. These requirements are as follows: a) the non-competition between the copy sold by the rightsholder and the copy resold by the acquirer; b) the copy resold should deteriorate over time; c) upon resale, the acquirer will not remain with the exclusive control of the work.

Observing the requirements, it is easy to conceive the exhaustion in works integrated into physical media, i.e., a book to be resold will be sold in second-hand bookstores, being part of a second market, not competing with the book distributed by the rightsholder. As a physical good, the book will deteriorate over time and through use, its pages will turn brown and stains from use may appear. Besides, as it is physical, when it is resold, the book passes from the seller's power to the power of the new buyer, and there is no possibility of the seller keeping the book under his control.

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<sup>14</sup> Coditel I (n. 11) para 12.

<sup>15</sup> Case 78/70, *Deutsche Grammophon v Metro-SB Grossmärkte* [1971] ECR 487, [1971] CMLR 631

<sup>16</sup> Mezei (n. 8) 13.

However, with the advent of the internet and digital technologies, the question that arises is whether the first sale doctrine could be applied in digital environments.

### 3. DIGITAL EXHAUSTION

The emergence of the internet opened the way to the digital world, where new technologies were introduced and, consequently, new modes of production. Today, most of the products available on the internet are delivered through digital content, e.g., e-books, music and apps. However, that shift in the conventional business model has brought a series of legal implications for the intellectual property regimes, particularly copyright, which is central to this study.

There is a great deal of controversy about applying the doctrine of exhaustion to digital content. Some scholars hold a traditional position, claiming that the exhaustion could only apply to tangible media, as these comply with the requirements explained in the chapter above. Other scholars believe extending the doctrine to the digital realm is possible.

The InfoSoc Directive, which horizontally harmonised the doctrine of exhaustion in the European Union, in Article 4 states that '[t]he distribution right shall not be exhausted within the Community in respect of the original or copies of the work, except where the first sale or other transfer of ownership in the Community of that object is made by the rightsholder or with his consent.'<sup>17</sup>

As it can be seen only for the analysis of Article 4, it can not be assumed that the InfoSoc Directive imposes a limitation to the application of the doctrine of exhaustion regarding the means that the work is incorporated. However, the understanding of the applicability of exhaustion only to tangible means is based on the recitals 15, 28 and 29 of the same directive.

The recital 15 prescribes that the InfoSoc Directive implements the obligations of the WIPO Copyright Treaty in European Union law. For that reason, it is generally accepted that the interpretation of Article 3(1) and Article 4(1) of the InfoSoc Directive must be aligned with Article 8 and Article 6 (1) of the WCT, respectively, which the latter refers only to copies that are in circulation on tangible objects, as stated in the Agreed Statements.

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<sup>17</sup> Directive 2001/29/EC (InfoSoc) (n.7) art. 4 (2)



Moreover, recital 28 provides that the exclusive right to control distribution is included in the protection given by the directive, regarding works incorporated on tangible goods.<sup>18</sup> Furthermore, recital 29 states that exhaustion does not apply to 'services and on-line services' for the reason that the services are an act and are not 'incorporated in a material medium'.<sup>19</sup>

It is important to realise that it is widely accepted that the doctrine of exhaustion can be applied to digital contents stored on physical media, such as the sale of games on CD/DVD. However, with digitalisation, sales of tangible media have become increasingly rare and are often made over the internet through downloads. Hence, the question arises whether the doctrine of exhaustion would apply in cases of digital transmission.

The scholars that believe that it is possible to extend the doctrine of exhaustion to some digital works based their understanding on Article 4(2) of the Software Directive, which states that the first sale of the copy of a computer program sold by the rightsholder or under his authorisation exhaust the right of distribution<sup>20</sup>, without mention any kind of limitation regarding the transmission medium. As a result, scholars and some case laws are accepting the application of the exhaustion doctrine to digital transactions, as will be discussed below.

### **3.1 Case law of the Court of Justice of the European Union**

#### **3.1.1. *UsedSoft v. Oracle***

The CJEU in *UsedSoft*<sup>21</sup> clarified the legal questions relating to the sale of software's used licenses through download over the internet.

The dispute started in Germany in 2007. The Oracle International Corporation sued UsedSoft GmbH for marketing Oracle's used software licenses. UsedSoft had acquired some parts of a volume license, which allowed twenty-five people to use the software. UsedSoft offered and sold the software license to their clients online but never transferred copies to the acquirers. Instead, the purchasers were redirected to download directly from Oracle's website.

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<sup>18</sup> Directive 2001/29/EC (InfoSoc) (n. 7) recital 28

<sup>19</sup> Directive 2001/29/EC (InfoSoc) (n. 7) recital 29

<sup>20</sup> Directive 2009/24/EC Of The European Parliament And Of The Council Of 23 April 2009 On The Legal Protection Of Computer Programs [2009 ] OJ 2 111/16

<sup>21</sup> Case C-128/11 *UsedSoft GmbH v. Oracle International Corp* [2013] Bus. L.R. 911.

Oracle won at the trial and appeals court. The CJEU answered some questions of BGH (German Federal Court of Justice) and stated that the Software Directive under the Article 4(2) allows the application of the exhaustion doctrine regarding the right of distribution on a sale of a computer program that occurs by the rightsholder or under his authorisation.

On the one hand, Oracle tried to convince that it was not a sale due to the fact that the purchasers had signed an Oracle's End Users License Agreement (EULA), which previewed that each acquirer after the payment for services receives 'exclusive for your internal business purposes and for an unlimited period, a non-exclusive, non-transferable user right, free of charge, in respect of everything which Oracle develops and makes available to you on the basis of this agreement.'<sup>22</sup>

For Oracle, the payment was not for the computer program copies but for a right of use that the EULA conferred.

On the other hand, the Court clarified what is understood as a sale and stated that it 'is an agreement by which a person, in return for payment, transfers to another person his rights of ownership in an item of tangible or intangible property belonging to him.'<sup>23</sup>

The CJEU concluded that downloading a computer program copy to be saved on the user's hardware for permanent use is a form of transfer ownership. Furthermore, Oracle received a proper remuneration for the copy, characterising a sale, not a licence.

Regarding the form of the distribution, the CJEU argued that, unlike the InfoSoc Directive, the Software Directive does not specify that exhaustion just applies to tangible copies, so it must be interpreted based on 'online-offline equivalence'<sup>24</sup>. It means that exhaustion is extended to intangible copies, including copies sold through download from the internet, in the case of distribution of computer programs. This is only possible in the case where a copy can be used for an unlimited period, the rightsholder has received a proper remuneration, and the reseller has destroyed or made unusable copies after being resold.

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<sup>22</sup> *UsedSoft* (n. 23) para 23

<sup>23</sup> *UsedSoft* (n. 23) para 42

<sup>24</sup> *UsedSoft* (n. 23) para 47

The UsedSoft case was the ground for the CJEU to argue about the sale and licence differences, right of distribution and right of communication to the public and goods and services dichotomy. These points will be presented in this work in the following sections.

For now, it is necessary to state that in the UsedSoft case, the Court considered the possibility of exhaustion on intangible copies of computer programs in cases of the transaction, regardless of the denomination attributed, has the features of a sale, as stated above. Moreover, the CJEU also recognised Directive 2009/24 as a *lex specialis* in relation to Directive 2001/29.

### 3.1.2. *Nintendo v PC Box*

In *Nintendo v PC Box*<sup>25</sup>, the Nintendo Undertakings sued PC Box and 9net regarding the sale of modchips and game copies through the internet on a website hosted by 9net. Nintendo products DS and Wii were manufactured with a technological protection measure to avoid illegal copies of games running on the Nintendo consoles.

The TPM consists of encrypted data existing both on the console and on the cartridges or DVD, and at the moment the cartridges or DVD is placed for reading on the console, this data exchanges and recognises each other, allowing the game to run on that console. The fact was that the Nintendo consoles only ran Nintendo's games. The TPM prevented any other type of games of been used on the consoles.

The lawsuit started in the District Court in Milan. On the one hand, Nintendo was suing PC Box for selling devices (modchips) that had the power to circumvent their technological protection measures. On the other hand, PC Box argued that Nintendo TPMs were preventing illegal copies and the use by independent games. Furthermore, Nintendo was accused of splitting the market.

The *Tribunale di Milano* referred questions to the CJEU for a preliminary ruling. The questions were related to the interpretation of Article 6 of the InfoSoc Directive in light of Recital 48. The first one is to answer whether the TPM linked to copyrighted works also extends to the product system, which is produced and marketed together. The second question is about whether or not Article 6 could be interpreted in the light of recital 48 as meaning of the adoption of criteria by a

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<sup>25</sup> Case C-355/12 *Nintendo Co. Ltd and Others v PC Box Srl and 9Net Srl* [2014] ECLI:EU:C:2014:25

national court to determine whether the products or components to circumvent a TPM prevails over other commercially important purposes.<sup>26</sup>

Although it is not the central theme of the case, to answer the questions, the CJEU analysed the applicability of the Software Directive on hybrid products and gave guidance about the legal nature of videogames. The Court declared that videogames 'constitute complex matter comprising not only a computer program but also graphic and sound elements, which, although encrypted in computer language, have a unique creative value which cannot be reduced to that encryption.'<sup>27</sup>

The Court also stated that the Software Directive is restricted to computer programs. Thus, the sound and graphic elements are part of the originality of videogames and are protected with all the other parts by the InfoSoc Directive.

It gives us an interpretation that only if the work is software, and nothing more, the Directive 2009/24 is applicable. In fact, that is the opinion of the Advocate General of the case, who argued that 'the provision of Directive 2009/24 take precedence over those of Directive 2001/29, but only where the protected material falls entirely within the scope of the former.'<sup>28</sup>

Taking into consideration the Court's statements in *Nintendo* and *UsedSoft*, it could be understood that only a few works are in the scope of the Software Directive. Consequently, the realm of digital exhaustion presented in *UsedSoft* is narrow. Although, in both *Nintendo* and *UsedSoft*, the Court did not tackle the problem in detail.

### **3.1.3. *Art & Allposters International BV v Stichting Pictoright***

In the *Art & Allposters*<sup>29</sup> case, the company was granted the right to reproduce renowned works on posters and sell them. However, apart from the posters, the Allposters transferred the copies of the famous works on the poster to canvas and created a new product to sell.

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<sup>26</sup> *Nintendo* (n. 27) para 18

<sup>27</sup> *Nintendo* (n. 27) para 23

<sup>28</sup> *Nintendo* (n. 27) Opinion of AG Sharpston, para 34

<sup>29</sup> Case C-419/13 *Art & Allposters International BV v Stichting Pictoright* [2015] ECLI:EU:C:2015:27

The transfer process was made by chemical products, and the company took the poster's copies and moved them to the canvas background<sup>30</sup>. Allposters did not make any new copies of the works. They used the exact physical copy on the poster to make it to the canvas.

Thus, *Allposters* was sued by *Stichting Pictoright* (a collective society that granted the right to the company) for infringing the reproduction right of the rightsholders by transforming posters into the canvas. The company alleged the exhaustion of the distribution right of the works due to the fact that works were tangible objects and the license of reproduction was granted to the company, so the works were put on sale by the consent of the rightsholder.

The CJEU was referred to answer some questions made by Roermond District Court (*Rechtbank Roermond*). The questions were related to whether the rightsholder's distribution right may be exercised regarding reproduction of a protected work where that reproduction has subsequently been altered in form and placed back into circulation in such form and whether exhaustion is extended to be applied in such cases.

The answer of the CJEU was, again, in the sense that the exhaustion of the distribution rights only occurs in respect of the tangible object or its physical carrier and does not extend to any other alterations on their media form. The Court stated its argumentation based on Article 4(2) of the InfoSoc Directive and its Recital 28, as well as on Articles 6 and 7 of the WIPO Copyright Treaty.

It means that Allposters had infringed the reproduction right by altering the physical form of the works transferring from posters to canvas background and creating a new form of reproduction that the copyright holders had not authorised.

Altogether, *Art & Allposters* was another case in which the CJEU stated that exhaustion expressed by article 4(2) of the InfoSoc Directive only applies to physical works or copies.

However, it is necessary to keep in mind that this case was not related to digital technologies. This decision is essential due to the fact that the CJEU's conclusion could be interpreted in the

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<sup>30</sup> Lothar Determann, 'Digital Exhaustion: New Law from the Old World' [2018] 33(177) Berkeley Technology Law Journal 211

sense that if it was related to digital content into a physical carrier, even in this case, the seller could not resell such work in a different form of tangible media.<sup>31</sup>

#### 3.1.4. *Vob v Stichting*

The *Vob v Stichting*<sup>32</sup> case is related to the lending of e-books by public libraries under the Rental Directive. While the case does not regard exhaustion of distribution rights on digital contents, it has some interesting insights given by the CJEU.

In this case, a Dutch public library enabled the users to download electronic books that were copied to a server by the library. The institution had installed some protection measures to ensure that only one person could read the book at a time, which means that only one copy was available, and each person had a lending period to read. After that, access to the copy of the book was no longer available.

The CJEU was consulted on whether the public library could lend e-books by temporary download. The answer was that lending one copy of a book to one person each time through digital media is the same as lending a tangible book. The fact that it was an electronic book was not a problem for the CJEU, which understood that Articles 1(1), 2(1) (b) and 6 (1) of the Rental Directive regarding lending rights apply to digital copies.<sup>33</sup>

The Court held this conclusion based on the fact that 'it is not evident that the commission [in the Explanatory Memorandum on the Proposal for a Council Directive on rental right, lending right, and on certain rights related to copyright] intended to apply such an exclusion to digital copies of books.'<sup>34</sup>

Moreover, the CJEU also argued that at the time of the memorandum's drafting, the 'digital copies of books were not used to such an extent that it can validly be presumed that they had implicitly been taken into account by the Commission.'<sup>35</sup>

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<sup>31</sup> Determann (n. 32) 213

<sup>32</sup> C-174/15 *Vereniging Openbare Bibliotheken v Stichting Leenrecht* [2016] ECLI:EU:C:2016:856

<sup>33</sup> *VOB* (n. 34) para 54

<sup>34</sup> *VOB* (n. 34) para 42

<sup>35</sup> *VOB* (n. 34) para 42



Nevertheless, the Court alluded that Recital 4 of the Rental Directive prescribes that '[c]opyright and related rights protection must adapt to new economic developments such as new forms of exploitation.'<sup>36</sup> It means that lending digital books could easily be understood as a new exploitation way, so the CJEU did not find any reason to exclude the digital lending of books or intangible objects from the realm of the directive.

It is necessary to state that digital copies and intangible objects are just accepted in this decision regarding lending rights due to the fact that the CJEU made a difference between lending and rental rights, which the latter explicitly restricts its application to tangible works.<sup>37</sup>

The fact is that the CJEU did not address some questions, such as whether the exhaustion could be applied in the case of making available an e-book by download. This question was only analysed on *Tom Kabinet*, as discussed below.

### **3.1.5. *NUV and GAU v Tom Kabinet Internet BV***

In *Tom Kabinet*<sup>38</sup>, Nederlands Uitgeversverbond (NUV) and Groep Algemene Uitgevers (GAU), two associations defending the Netherlands publishers' interests, sued Tom Kabinet for operating a website to promote a virtual second hand market of e-books. The District Court of Amsterdam (*the Rechtbank Amsterdam*) understood that there was no breach of the copyright.

The associations appealed, and the Court of Appeal prohibited Tom Kabinet from offering an online service that 'allowed the sale of unlawfully downloaded e-books.'<sup>39</sup> After that, Tom Kabinet created a 'reading club', where members paid a monthly subscription to be able to download second-hand e-books that had been purchased by or donated to the company.

In case of donation, the company receives a link to the retailer's website and a declaration from the donor to prove that the e-book was legally acquired. Then a watermark of Tom Kabinet was digitally added to the e-books.

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<sup>36</sup> 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 [2006] OJ 2 376/28

<sup>37</sup> *VOB* (n. 34), paras 34-35

<sup>38</sup> C-263/18 *Nederlands Uitgeversverbond and Groep Algemene Uitgevers v Tom Kabinet Internet BV and Others* [2019] ECLI:EU:C:2019:1111

<sup>39</sup> *Tom Kabinet* (n. 40) para 23

Again, NUV and GAU associations understood that Tom Kabinet was promoting an 'unauthorised communication of e-book to the public'<sup>40</sup> by making it available to download, as well as, infringing the reproduction right by maintaining a copy on the servers even after the sale and also breaching distribution rights. For that reason, they applied for an injunction on the District Court of The Hague (*the Rechtbank Den Haag*).

Firstly, regarding the communication to the public, the Court of the Hague stated that it could not be considered a 'public' since only the person who acquired the book had access to it. Secondly, the company should not maintain the copy on their server, even if the right of distribution is exhausted.

However, concerning the distribution right and its exhaustion, the District Court of The Hague considered that the *UsedSoft* case did not demonstrate whether the digital exhaustion could be applied to other sales unrelated to the computer program. Under those circumstances, the Court referred some questions to the CJEU.

The first question was whether Article 4(1) of the InfoSoc Directive could be interpreted to include the distribution of e-books through download for an unlimited period of use and paying proper remuneration.<sup>41</sup>

Secondly, if the answer to the first question is in the affirmative, whether the distribution right is exhausted after the first sale, as referred to in Article 4(2) of the Directive.

Thirdly, whether Article 2 of the InfoSoc Directive must be interpreted to consider a transfer between lawful acquirers of exhausted copy as consent to reproduction acts which are necessary for the use of the copy, and if affirmative, which are the conditions for that?

Finally, whether Article 5 of the same directive must be interpreted 'as meaning that the copyright holder may no longer oppose the acts of reproduction necessary for a transfer between successive acquirers of the lawfully acquired copy in respect of which the distribution right has been exhausted and, if so, which conditions apply?'.<sup>42</sup>

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<sup>40</sup> *Tom Kabinet* (n. 40) para 27

<sup>41</sup> *Tom Kabinet* (n. 40) para 30

<sup>42</sup> *Tom Kabinet* (n. 40) para 30

On the first question, The Court of Hague wants clarification regarding the extension of the reasoning presented on *UsedSoft* concerning to distribution right to download the electronic books, considering that the sale took place with the consent of the copyright owner, who received the proper remuneration, and the content was sold for an unlimited period of use.

If the CJEU understands the extension of Article 4(1) of the InfoSoc Directive to digital contents, the subsequent questions will be answered due to the fact that the next question is to clarify whether the distribution of e-books results in exhaustion and whether the transfer of electronic books between the acquirers could be seen as a reproduction act, even if it is necessary to the use, and if the rightsholder could oppose to it.

The CJEU reformulated the first question since it understood that what the Hague Court wanted to know was 'whether the supply by downloading, for permanent use, of an e-book is covered by the concept of “communication to the public” within the meaning of Article 3(1) of Directive 2001/29, or by that of 'distribution to the public', as referred to in Article 4(1) of that directive.'<sup>43</sup>

As it is seen, the central discussion in the case is the distinction between the right of distribution and the right of communication and whether the doctrine of exhaustion could be applied to the sale of electronic books.

To answer this question, the EU Court started with the InfoSoc Directive analysis from its origins, context, and objectives.<sup>44</sup> The reasoning behind the analysis was based on the WIPO Copyright Treaty, the Agreed Statements, and the European Commission's explanatory memorandum on the harmonisation of certain aspects of copyright and related rights in the Information Society.

In a controversial argumentation, the CJEU drew a distinction between tangible and intangible copies. Based on the necessity to interpret the InfoSoc Directive in a consistent manner with the WCT, the Court explained that taking into consideration the Agreed Statements, the terms 'copies' and 'original copies' on Articles 6 and 7 of the WCT are related to tangible objects, 'therefore, that Article 6(1) [of the WCT] cannot cover the distribution of intangible works such as e-books'.<sup>45</sup>

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<sup>43</sup> *Tom Kabinet* (n. 40) para 34

<sup>44</sup> *Tom Kabinet* (n. 40) para 38

<sup>45</sup> *Tom Kabinet* (n. 40) para 40

As recital 15 states, the InfoSoc Directive 'serves to implement a number of the European Union's obligations under the WCT.<sup>46</sup> Consequently, Article 4 of the InfoSoc Directive needs to be interpreted according to Article 6(1) of the WCT, which means that distribution is related only to tangible works.

Regarding the right of communication to the public, the Court added that Article 3(1) of the Directive, which reproduces Article 8 of the WTC, concerns 'interactive activities', since the public may access the work at a place and a time they individually choose. Moreover, based on the explanatory memorandum, The CJEU argued that The Commission's intent was to cover with the right of communication to the public any work other than physical, which is covered by the distribution right.

The Court used some recitals, such as 2, 4, 5, 9, 10, 23, 25, to ground the understanding that the right of communication to the public is the right that covers the transmissions of intangible works due to the fact that the directive's objective is to give a 'high level to protection of authors, allowing them to obtain an appropriate reward for the use of their works, including when a communication to the public takes place.<sup>47</sup> For that reason, communication should be extended to any communication to the public that occurs in a place different from its origins, including transmission and retransmission through wire or wireless means and broadcasting.

Regarding exhaustion, Article 3(3) of the InfoSoc Directive makes clear that the doctrine of exhaustion does not apply in cases of communication to the public. Additionally, the Court used recital 28 and 29 to state that exhaustion only applies to the distribution of physical copies. However, to dismiss the reasoning used on *UsedSoft*, the CJEU argued that e-books are not computer programs, so the Software Directive does not apply to them, which, being *lex specialis*, is only related to computer programs.

Furthermore, the CJEU understood that, unlike in the *UsedSoft* case, books and e-books are not equivalent. The deterioration does not affect digital products in the same ways as physical ones, and the transmission cost is cheaper than the transmission of tangible copies, which could affect the rightsholder's interest.

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<sup>46</sup> *Tom Kabinet* (n. 40) para 40

<sup>47</sup> *Tom Kabinet* (n. 40) para 48

Moreover, the Court used *Nintendo's* reasoning<sup>48</sup> to conclude that even if it could consider e-books as a 'complex matter', the software is incidental. Its function is to enable reading. The essential part is the book's content, which is the reason for protection. The simple existence of the software does not justify the application of Directive 2009/24.

In the end, the CJEU just answered the first question and concluded as follows:

The supply to the public by downloading, for permanent use, of an e-book is covered by the concept of 'communication to the public' and, more specifically, by that of 'making available to the public of [authors'] works in such a way that members of the public may access them from a place and at a time individually chosen by them', within the meaning of Article 3(1) of Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society.<sup>49</sup>

#### 4. VIDEOGAMES AS A COPYRIGHT'S SUBJECT MATTER

In the 1970s, videogames included basic graphic form and rudimentary audio. There was great difficulty distinguishing between an idea and its expression at this time because the technology was not much developed. This close line between idea and expression led to the first judicial actions about video games, where judges had to examine its legal nature and protection.<sup>50</sup>

The US case *Atari, Inc. v. Amusement World*<sup>51</sup> was one of the first well-known video game cases. *Atari, Inc.* sued *Holniker and Amusement World, Inc.*, alleging *Meteors* had many similarities with *Asteroids*, as same game mechanics, near the identical scoring system, and almost the same attract modes. Both games had the same principle, and many design characteristics were very similar.

The Court stated that *Holniker and Amusement World, Inc* based their videogame on *Asteroids*, which means they have the same idea. However, the expression of these ideas was different. As copyright protects only the expression and not the idea itself, *Meteors* was not sufficiently similar

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<sup>48</sup> *Nintendo* (n. 27)

<sup>49</sup> *Tom Kabinet* (n. 40)

<sup>50</sup> Andy Ramos and others, *The Legal Status of Video Games : Comparative Analysis in National Approaches* (World Intellectual Property Organization 2013)

<sup>51</sup> *Atari, Inc. v. Amusement World, Inc.*, 547 F. Supp. 222 (D. Md. 1981)

to be considered an infringing copy of *Asteroids*. It means that if the form of expression and the idea were indivisibly connected, the game's visual elements would not be in the realm of copyright protection.

Notwithstanding, videogames are now made with many forms of expression, such as programming and audiovisual elements, and have an intrinsically multisided nature.<sup>52</sup> This complex nature brings many challenges and discussions about the legal nature of video games as a whole, whether they fall under copyright protection, and whether exhaustion could be extended.

On the one hand, some scholars suggest that video games are, as a whole, multimedia works, which is part of the audiovisual category due to the fact that they are, at the basics, a series of images. On the other hand, other authors indicate that the classification of video games as audiovisual works is not that simple because they have interactive components that are executed by computer programs.<sup>53</sup>

The opinions are divergent. Countries that consider videogames as computer programs justify that based on the dependency that videogames have on software to run the games. This is the case in Argentina, Canada, Israel, Italy and some other countries. Instead, Brazil, Egypt, France, US and Belgium consider a distributive classification, which means each videogame element should receive protection according to its nature. Finally, as stated by Ramos and others<sup>54</sup>, Kenya and the Republic of Korea classified video games as multimedia works as part of the audiovisual category.

As previously discussed, in order to receive copyright protection, it is necessary for a work to be original or reflect the author's creative choices, to have been expressed in some way, and to be within the subject matter of the copyright. In the European Union, the copyright's subject matter includes, e.g. literary works, works of fine art (graphic or plastic art), sound and audiovisual work, databases and software programmes.

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<sup>52</sup> Anthony Michael Catton, 'Mere play or authorial creation? Assessing copyright and ownership of in-game player creations (Part 1)' [2019] 2(2) *Interactive Entertainment Law Review* 57-66

<sup>53</sup> Andy Ramos and others (n. 52) pp 12-13

<sup>54</sup> Andy Ramos and others (n. 52) 14

Therefore, based on the subject matter of copyright, it is clear that videogames are complex works of authorship made of multiple forms and creative content, and regardless of the above classification it receives, they will deserve copyright protection.

Article 2 of the Berne Convention assured that when defined as literary and artistic works, 'every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression'.<sup>55</sup>

However, the classification of the legal nature of videogames is important to determine the applicable law or directive (in the case of the European Union) and whether exhaustion is extended.

As explained above, in *UsedSoft*, the CJEU concluded that downloading a copy of a computer program to be stored on the user's hardware for permanent use characterises a sale, and since the Software Directive does not specify the form of the product, exhaustion is extended to intangible copies of computer programs sold and distributed by downloading from the internet.

This case opened the possibility of applying the doctrine of exhaustion to intangible products. However, as far as video games are concerned, the classification of their legal nature is not standardised, so the analysis of the application of digital exhaustion is more complex than in *UsedSoft*.

In *Nintendo*, the CJEU gave guidance about the videogame nature. The Court declared that videogames are hybrid products since they 'constitute complex matter comprising not only a computer program but also graphic and sound elements, which, although encrypted in computer language, have a unique creative value, which cannot be reduced to that encryption'.<sup>56</sup>

Moreover, in *Nintendo* and *Tom kabinat* cases, the CJEU suggested that the software on hybrid products is merely incidental. The simple existence of the software on the product does not justify the application of Directive 2009/04, which is considered *lex specialis*. To the CJEU, the Software Directive is only applicable in cases of the product is made by only the software in which the protected material falls entirely within the scope of the directive.<sup>57</sup>

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<sup>55</sup> Berne Convention for the Protection of Literary and Artistic Works (adopted 14 July 1967, entered into force 29 January 1970) 828 UNTS 221

<sup>56</sup> *Nintendo* (n. 27) para 23

<sup>57</sup> *Nintendo* (n. 27) Opinion of AG Sharpston, para 34

Notwithstanding the CJEU's guidance, the legal nature of videogames continues to be debated, and the possibility of applying digital exhaustion to video games remains uncertain due to the fact that the CJEU, in *Nintendo*, did not tackle the problem in detail. This uncertainty reflects in the national case law. Some courts follow the CJEU guidelines, and others, as in *UFC-Que Choisir v. Valve*, have a different interpretation, as will be seen below.

#### **4.1. The Cases in National Courts**

##### **4.1.1. *Half-Life 2***

In *Half-Life 2*<sup>58</sup>, a German consumer protection association sued a videogame developer, Valve, regarding contract terms that prohibit the resale of online accounts. The developer was selling videogames in physical carriers (DVD), which only run and enable the consumer to play the game after creating an individual online account on a platform from Steam.

However, in order to create an account on the Steam platform, consumers had to accept the Subscriber Agreement, which stated that purchasers were forbidden from reselling or transferring their Steam account.

The consumer association argued that preventing the sale or the transfer of the account prevented the resale of the DVD as a consequence and thus violated the doctrine of exhaustion under the German rules.<sup>59</sup>

The German Court (BGH) has held that the doctrine of exhaustion does not relate to accounts. The doctrine of exhaustion applies only to works on physical media, in this case only in respect of the sale of DVDs, to which the terms of the contract do not limit the sale.

Furthermore, the BGH stated that the claim that no one would be interested in buying the DVD without the account is irrelevant. This argument is not sufficient to support extending the domain of the doctrine of exhaustion or to declare the contract terms unlawful. For the BGH, the contract does not have the purpose of allowing the users to play the game but to establish the parties' duties and rights.

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<sup>58</sup> *Half-life 2* [2010] BGH I ZR 178/08

<sup>59</sup> Determann (n. 32) 214

The Court also held that the effect of the doctrine of exhaustion rests only on the right of distribution after the first sale and does not have the power to determine the way the games are designed. It means that the developer and platforms are free to choose the distribution method.<sup>60</sup>

#### 4.1.2. *Steam Accounts*

The *Steam Accounts*<sup>61</sup> case was similar to *Half-Life 2*. The German Consumer Protection Association VZBV challenged the Subscriber Agreement of Steam regarding the accounts' sale prohibition. The VZBV argued that the terms of the agreement were an infringement of consumer law.

In this case, the users could acquire the game on DVD or through the internet by downloading. Like *Half-life 2*, the users had to create a personal account on the Steam platform and accept the terms of the Steam Subscriber Agreement.

The Regional Court decided that the Agreement terms were lawful because it did not affect the exhaustion since it was only related to the account, and the exhaustion only applies to the software on the DVD. The VZBV appealed against the decision.

The Court of Appeals in Berlin cited *Half-life 2* to state that the exhaustion principle was not related to the online accounts, just to the DVD, so in that case, the user could resell the DVD. Additionally, the Court argued that the download of the game could not be considered a sale, ruling out the *UsedSoft* reasoning. Hence, exhaustion continues to apply only to physical copies of the videogames.

The Court understood that, unlike in *UsedSoft*, in the download case, the user could not be considered an owner of the videogame, as the videogames, in that case, were offered as part of a service package. The package included services that enabled the users to continue playing the game, and for this, a continuous exchange of data between the server of the company and the users was required.<sup>62</sup>

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<sup>60</sup> Alina Trapova and Emanuele Fava, 'Aren't we all exhausted already? EU copyright exhaustion and video game resales in the Games-as-a-Service era' [2020] 3(2) *Interactive Entertainment Law Review* <<https://ssrn.com/abstract=3751290>> accessed 31 May 2022

<sup>61</sup> Landgericht Berlin 15 O 56/13 (*Steam Accounts*) [2014];

<sup>62</sup> Determann (n. 32) 215

In the end, the Court dismissed the appeal, concluding that exhaustion did not apply and the users that downloaded the videogames were not entitled to resell it. Furthermore, in order to resell the game, since the game is linked to the user's account for which he accepted the Subscriber Agreement, these would be digitally transferred together with the game, which could be qualified 'as a transfer of a contract that requires the consent of the defendant under German law'<sup>63</sup>

#### 4.1.3. *Keyselling*

In *the Keyselling*<sup>64</sup> case, an internet shop sold keys to activate games, which were sent by email to buyers in exchange for a lump sum. Once the keys were in hand, consumers could download the platform games to their computers. The product keys were added to the DVD (physical data carrier) purchased by the shop partners in the UK and Poland.

The shop owner claimed that he received the codes from his partners by scanned images, and after that, the physical data carrier was destroyed, as well as any copy of the key. For that reason, he argued that his acts were not an infringement of copyright, as exhaustion had occurred on the distribution right.

The Regional Court of Berlin dismissed the case, concluding that it violated the reproduction right of the rightsholder since they changed the product's form when they split the key from the DVD, creating a different product than the product distributed initially by the rightsholder.

Regarding exhaustion, the Court held that videogames are hybrid products and not exclusively computer programs, and for that reason, both directives (Software and InfoSoc) could govern it. However, the protection that the InfoSoc Directive gives is higher than the Software Directive, and it is not reasonable that rightsholders lose the higher protection just because the product has a software as one of its components.

Finally, based on the CJEU reasoning in *Nintendo*, the Court concluded that the InfoSoc Directive should be applied to the case, which means that the application of the exhaustion is limited to tangible products.

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<sup>63</sup> Determann (n. 32) 215

<sup>64</sup> Landgericht Berlin 16 O 73/13 (*Keyselling*) [2014].

#### 4.1.4. *UFC – Que Choisir v. Valve*

*UFC- Que Choisir v Valve*<sup>65</sup> is a case that has one of the most recent decisions on national cases related to videogames and digital exhaustion. The dispute was brought before The Paris Court of First Instance (*Tribunal de Grande Instance de Paris*) when a French consumer association, known as UFC-Que Choisir, challenged the prohibition clause on reselling accounts and games provided by Steam's Subscriber Agreement.

On the one hand, the UFC argued that the clauses on the agreement were unlawful as they breached the free movement of goods and the doctrine of exhaustion. Considering that the users downloaded the game from the internet, the association based their allegation on the CJEU reasoning in the *UsedSoft* case to support its argument of exhaustion in intangible media.

On the other hand, Valve claimed that exhaustion did not apply since users downloaded the game and there were no physical carriers. Moreover, it also argued that users were not buying a game but, instead, subscribing to the platform to access the game.

The Paris Court of First Instance held that the transaction between Valve and Steam users was not a subscription but rather a sale, on the grounds that the user paid a determined price in a single fee and could access the games for an unlimited period of time, which could be considered a sale as the CJEU defined it in *UsedSoft*, which means that the doctrine of exhaustion could be applied to digital copies of games.

Finally, The Paris Court of First Instance concluded that the clauses on the Steam Subscriber Agreement were unlawful. For the Court, these clauses were an infringement of the doctrine of exhaustion provided by Directive 2001/29/EC and Directive 2009/24/EC. Furthermore, it held that the exhaustion should be applied to the copy of the games no matter the form of the distribution, even if it were transmitted as digital data, which means that users were free to resell the games since the transaction was considered a sale.

However, The Paris Court of First Instance, on the decision, mixed the concepts of 'distribution rights' and 'making available to the public right'<sup>66</sup>. Additionally, the Court argued that neither the

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<sup>65</sup> *UFC-Que Choisir v. VALVE* [2019] Tribunal de Grande Instance de Paris No RG 16/01008.

<sup>66</sup> Trapova and Fava (n. 62) 83 footnote 59

InfoSoc Directive nor the Software Directive conditioned exhaustion to the existence of a material (physical) copy.

Regarding the clause about reselling users' accounts, the The Paris Court of First Instance concluded that Valve was not obliged to allow that because those accounts contained personal data and activities related to the owner of the account.

Moreover, it did not explain how the exhaustion could be applied to digital products in the realm of the InfoSoc Directive and neither why transactions of some intangible works could be considered a sale and some may not. Valve appealed and still waiting for the decision.

## 5. KEY CONCEPTS OF DIGITAL EXHAUSTION CASES

Observing the previously mentioned cases, it becomes clear that concepts that were widely accepted and suitable in daily situations presented in Courts do not find ways to adapt or extend to cases in the digital environment.

The lack of tangible form of work, the new transfer methods, and new business models that are carried out through data encounter barriers in concepts that are restricted and attached to physical goods. While there is no standardisation of understanding and pertinent legislation, the implementation and understanding end up being done on a case-by-case basis, which has often generated confusing decisions with divergent interpretations in similar cases.

In light of the aforementioned case law, it is essential to critically analyse the key concepts necessary to understand the classificatory dilemma on courts' decisions to address the digital challenges, especially in the cases of digital exhaustion related to videogames.

The first analysis is regarding the sale and license dichotomy. The second is related to goods and services. Then, the difference between the distribution right and the right communication to the public. Finally, the last analysis regards *lex specialis* and the CJEU's interpretation.

### 5.1.1. *Sale v. Licence*

The doctrine of exhaustion states that after the first sale or other transfer of ownership, the distribution right in respect of an original or copies of the work shall be exhausted if the first sale was made by the rightsholder or authorised by him.<sup>67</sup>

In the *UsedSoft* case, the CJEU held that sale 'is an agreement by which a person, in return for payment, transfers to another person his rights of ownership in an item of tangible or intangible property belonging to him.'<sup>68</sup> Therefore, to be considered a sale, the transaction must involve a transfer of ownership. This sale concept has to be uniformly interpreted in the European Union to not cause an impact on the functioning of the internal market.

On the other hand, a licence 'allows for the use of the original or the copy of the work or other protected subject matter, and the conclusion of a licence contract does not involve the sale or any other form of transfer of ownership of the said work or other protected subject matter'.<sup>69</sup> On a licence, the rightsholder authorises another person to use the work for a limited or unlimited period of time. However, during the use, the copyright owner retains the title.

Considering that one of the conditions to apply the doctrine of exhaustion is that the transaction should result in a transfer of ownership, it is not possible to extend exhaustion to licence cases.

Nonetheless, in *UsedSoft*, the CJEU interpreted the model of commercialisation practised by Oracle and understood that the transaction was, in fact, a sale and not a licence agreement, despite being made under the licence name.

The Court highlighted some key elements to conclude that the transaction was actually a sale. The first element is the transfer of ownership. It was analysed whether the transaction transferred the ownership to the user.

In the mentioned case, the licence was permanent, which means it was not granted for a limited period of time. The copyright owner granted a perpetual licence to use in return for payment of a single fee.

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<sup>67</sup> Directive 2001/29/EC (InfoSoc) (n. 7) 4 (2)

<sup>68</sup> *UsedSoft* (n. 23) 42

<sup>69</sup> Péter Mezei, 'Digital First Sale Doctrine Ante Portas: Exhaustion in the Online Environment', 6 (2015) JIPITEC 23, para 1' [2016] 6(1) JIPITEC <<https://ssrn.com/abstract=2615552>> accessed 1 June 2022

To determine whether the licence should be construed as a sale, it suggested that 'the social and economic lifespan of the product must be assessed'<sup>70</sup>. For this means, 'any licence that exceeds the products' economic and social life could be transformed into a sale.'<sup>71</sup>

Moreover, the Court considered that the rightsholder received a proper remuneration, and UsedSoft paid the fee that was defined by Oracle, which corresponded to the economic value of the product.

Finally, the CJEU concluded that merely calling the contract a licence is insufficient 'to circumvent the rule of exhaustion and divest it of all scope'<sup>72</sup>. In the Court's understanding, 'the downloading of a copy of a computer program and the conclusion of a user licence agreement for that copy form an indivisible whole.'<sup>73</sup> It means that '[t]hose two operations must therefore be examined as a whole for the purposes of their legal classification.'<sup>74</sup>

For the Court, granting a copy for permanent use in return for a single payment that corresponds to the economic value of the copy of the work is economically and legally equivalent to a transfer of ownership, which is the difference between selling and licensing, regardless of the form of the transfer.

Furthermore, based on the opinion of the AG, the Court held that in order to prevent the rightsholder from circumventing the exhaustion and controlling the secondary market, 'all forms of product marketing'<sup>75</sup> should be broadly interpreted to include all transactions having the characteristics of sale, such as '[...] grant of a right to use a copy of a computer program, for an unlimited period, in return for payment of a fee designed to enable the copyright holder to obtain a remuneration corresponding to the economic value of the copy of the work of which he is the proprietor'<sup>76</sup>.

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<sup>70</sup> Trapova and Fava (n. 62) 86

<sup>71</sup> Trapova and Fava (n. 62) 86.

<sup>72</sup> *UsedSoft* (n. 23) para 49.

<sup>73</sup> *UsedSoft* (n. 23) para 44.

<sup>74</sup> *UsedSoft* (n. 23) para 44

<sup>75</sup> *UsedSoft* (n. 23) para 49.

<sup>76</sup> *UsedSoft* (n. 23) para 49.



Moreover, based on 'online-offline equivalence'<sup>77</sup>, the CJEU believed that exhaustion should be extended to intangible copies, including copies sold through download from the internet, in the case of distribution of computer programs. However, the reseller has to prove that he has destroyed or made unusable copies after being resold.

### **5.1.2. *Right of Distribution v. Right of Communication/ Making available to the Public***

Other key concepts that cause some problems in the decisions of the cases are the distribution right and the right of communication to the public. The distinction between them is important since the InfoSoc Directive and the Software Directive limited exhaustion only to distribution rights.

The distribution right is provided by Article 4 of InfoSoc, which prescribes that 'Member States shall provide for authors, in respect of the original of their works or of copies thereof, the exclusive right to authorise or prohibit any form of distribution to the public by sale or otherwise.'<sup>78</sup> Regarding the distribution right on software, the Directive 2009/24 on Article 4(c) held that '[T]he exclusive rights of the rightholder within the meaning of Article 2 shall include the right to do or to authorise: (...) (c) any form of distribution to the public, including the rental, of the original computer program or of copies thereof'.<sup>79</sup>

These provisions are based on Article 6 (1) of WCT, which provides that '[a]uthors of literary and artistic works shall enjoy the exclusive right of authorising the making available to the public of the original and copies of their works through sale or other transfer of ownership.'<sup>80</sup>

The Right of Communication to the Public, on the other hand, is prescribed by article 8 of WCT, which is the base for the Article 3(1) of the InfoSoc Directive, which states:

Member States shall provide authors with the exclusive right to authorise or prohibit any communication to the public of their works, by wire or wireless means, including the making available to the public of their works in such a way that members of the public may access them from a place and at a time individually chosen by them.

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<sup>77</sup> *UsedSoft* (n. 23) para 47.

<sup>78</sup> Directive 2001/29/EC (InfoSoc) (n. 7) article 4

<sup>79</sup> Directive 2009/24/EC (Software Directive) (n. 22) article 4 (c)

<sup>80</sup> WIPO Copyright Treaty (adopted 20 December 1996, entered into force 6 March 2002) 2186 UNTS 121.

Based on the aforementioned articles, in the *UsedSoft* case, the CJEU clarifies that the difference between the mentioned rights is '[t]he existence of a transfer of ownership'<sup>81</sup>, which transforms the act of communication into a distribution act.

Nonetheless, the right of distribution is usually linked to transferring the ownership of only tangible copies. For the scholars that accept this view, the justification comes from the Agreed Statement concerning Articles 6 and 7, which state that 'the expressions "copies" and "original and copies", being subject to the right of distribution and the right of rental under the said Articles, refer exclusively to fixed copies that can be put into circulation as tangible objects.'<sup>82</sup>

In this view, the distinction between the right of communication to the public and the distribution right is based on the physical nature of the work or its carrier. On the one hand, the distribution right only could occur on transfers of ownership of tangible copies. On the other hand, the right of communication to the public is the provision that covers all the transfers of intangible copies.

The only exception accepted was in the *UsedSoft* case. The CJEU concluded that distribution, and consequently exhaustion, could be extended to intangible copies of computer programs, as explained in chapter 3, section 3.1.1.

However, this exception was only possible due to the fact that the Court considered the functioning and the economic perspective of the transaction, concluding that downloading a computer program granted for an unlimited period in return for a single payment of a fee is equally a sale of tangible copies.

Moreover, the case was related to a computer program, and the CJEU held that the Software Directive on Article 4 (1) does not limit the exhaustion to tangible forms, so it must be interpreted on a technologically neutral base. Thus, *UsedSoft* was the only case, until now, where the CJEU adopted this neutral base on cases related to digital exhaustion.

In *Tom Kabinet*, as it was seen, the CJEU concluded that e-books are hybrid products and, by a confusing and misguided interpretation of the *lex specialis* (which will be discussed in this

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<sup>81</sup> *UsedSoft* (n. 23) para 52.

<sup>82</sup> *Agreed Statements concerning the WIPO Copyright Treaty*, adopted by the Diplomatic Conference of December 20, 1996. < [https://wipolex-res.wipo.int/edocs/lexdocs/treaties/en/wct/trt\\_wct\\_002en.pdf](https://wipolex-res.wipo.int/edocs/lexdocs/treaties/en/wct/trt_wct_002en.pdf) > accessed 2 June 2022

chapter, section 5.1.4), held that these products are part of the realm of the InfoSoc Directive, which is based on the tangible notion.

For that reason, as the distribution right on the InfoSoc Directive is limited to tangible copies, the right of communication to the public is the right that covers the transmissions of intangible works, in that case, e-books.

However, there is another view, which is the view I share, that believes that the distinction point between the right of communication to the public and the right of distribution is the effect of the transfer or the transmission, regardless of the form (digital or physical).<sup>83</sup>

In this view, the communication to the public is related to on-demand transmission, in which the user can choose the place and the time. However, a copy of the work is not provided by any means. The principal characteristic is the transmission, which is dematerialised, and not the transfer of a copy.

This reading seems to be valid by analysing recital 23, which provides that communication to the public is related to 'any such transmission or retransmission of a work to the public by wire or wireless means, including broadcasting. This right should not cover any other acts.'<sup>84</sup> The recital emphasises 'transmission', which gives the impression that it is something that the users can use and watch but not possess. It means that the users can receive the transmission without retaining a digital or physical copy.

According to this understanding, the rights on Article 3 of the InfoSoc Directive are related to services. Concerning this matter, the Implementation of the 1991 Software Directive underlined that '[T]he on-demand transmission of the work without permanent transfer of the copy represents, indeed, the provision of a service, and not the transfer of a product/good, as in the case of distribution.'<sup>85</sup>

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<sup>83</sup> Sganga (n. 13) 15

<sup>84</sup> Directive 2001/29/EC (InfoSoc) (n. 7) recital 23

<sup>85</sup> Sganga (n. 13) 16

Moreover, from a systematic overview, recital 29 of the InfoSoc Directive<sup>86</sup> helps to reaffirm this reading by excluding services, online services and copies made by the service's users of the realm of exhaustion. As the transmission is not a product or a good, it does not transfer ownership. Consequently, it can not be seen as part of the realm of the distribution right.

Additionally, in *Coditel I*, the CJEU held that films are 'made available to the public by performance' and providing transmission of a film is considered a service. For that reason, providing transmission of the film did not exhaust the exclusive right of communication to the public.

This view emphasises the economic and functional perspective rather than the tangible or intangible nature. It is more technologically neutral and could be extended to interpret outdated provisions to give the same treatment to transactions that are similar in functions but different in form.

### 5.1.3. *Goods v. Services*

The good/service dichotomy is relevant to understanding exhaustion as recital 29 excludes services from the scope. However, this dichotomy is controversial since the CJEU considers tangibility and tradability as distinction points between goods and services.<sup>87</sup>

For the Court, goods are tangible 'products which can be valued in money and which are capable, as such, of forming the subject of commercial transactions.'<sup>88</sup> It means that services are qualified as residual.

Nonetheless, in the *Football Association Premier League*<sup>89</sup> case, the Court concluded that physical products could be considered a service if they were provided as a step or a means to perform the service.

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<sup>86</sup> Directive 2001/29/EC (InfoSoc) (n. 7) recital 29

<sup>87</sup> *Sganga* (n. 13) 18

<sup>88</sup> C-7/68 *Commission v Italy* [1968] ECR I-0423. B (1) para 2

<sup>89</sup> 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.

The confusion gets worse in cases related to digital technologies. In *Tom Kabinet*, the EU Court held that, based on recital 15, the InfoSoc Directive should be interpreted consistently with the WCT. Hence, Article 4 of the InfoSoc Directive needs to be interpreted according to Article 6(1) of the WCT, which means that only tangible mediums are distributed.

Therefore, for the CJEU, the form of the transmission and the tangibility of the material is more important than what is transferred. If it is done online, it is considered a service and not a sale of a good, which means that it is a communication to the public and is subject to exhaustion.

The concept of electronically supplied service is provided by implementing Regulation n. 282/2011, which states that it 'shall include services which are delivered over the Internet or an electronic network and the nature of which renders their supply essentially automated and involving minimal human intervention, and impossible to ensure the absence of information technology.'<sup>90</sup>

This reading is compatible with the E-Commerce Directive<sup>91</sup>, which in recital 18 states that an online sale of a good is a service. Furthermore, recital 33 of the Database Directive holds that online databases do not exhaust since they are considered a provision of services<sup>92</sup>. Additionally, the VAT Directive<sup>93</sup> on Article 14 (1) considers goods as only tangible objects.

Nevertheless, when the case is related to software, the interpretation is different, and some nuances have to be taken into consideration. Before the *UsedSoft* case, the Commission's understanding was the same presented above: that software provided by digital means was supplied as a service. After *UsedSoft*, the reasoning changed. The CJEU deemed the application of the InfoSoc Directive and did not limit the analysis to the tangible/ intangible nature of the carrier.

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<sup>90</sup> Council Implementing Regulation (EU) No 282/2011 of 15 March 2011 laying down implementing measures for Directive 2006/112/EC on the common system of value added tax, Article 7(1).

<sup>91</sup> 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 ('Directive on electronic commerce') [2000] OJ L 178 Recital 18.

<sup>92</sup> Directive 96/9/EC of The European Parliament and of The Council of 11 March 1996 on the legal protection of databases (Database Directive) [1996] OJ L 77/20 Recital 33.

<sup>93</sup> Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax. ('VAT Directive') [2006] OJ L 347/1 Article 4 (1).

Moreover, it was held that to conclude if the transfer of software by digital means will be considered a distribution and, consequently, extended to apply exhaustion, it is necessary to establish, case by case, whether the transaction is functionally equivalent to a sale of goods.

Some scholars argue that the reasoning on *UsedSoft* 'shall be applicable to other subject matter than software as well, and consequently the sale of protected subject matter via the Internet shall not be per se excluded from the scope of the doctrine of exhaustion.'<sup>94</sup>

The problem in *UsedSoft* regarding the goods-services dichotomy is that the Court did not provide the essential requirements for digital products, transmitted by online means, to be held as goods. In this case, the decision only touched on the requirements that distinguish a digital transfer between sale and license, as demonstrated in this chapter on section 5.1.1.

The lack of guidance and the confusing understandings outlined in the case law leave the door open for similar cases being judged in multiple ways. The analysis still rests on a case-by-case basis and leaves the digital exhaustion without a horizon.

The distinction between goods and services is the most important criterion that has to be determined. This criterion has to be used despite the tangible-intangible nature since the increasingly digital transmission is the future. This criterion will answer whether all transactions in the future will be considered services or not.

#### **5.1.4. *Lex Specialis: The Reasoning of the Usedsoft, Nintendo and Tom Kabinet Cases***

The Court of Justice of the European Union concluded in the *Nintendo* and *Tom Kabinet* cases that the Software Directive is *lex specialis*, and its application is limited to works that entirely fall in the realm of the directive. Additionally, products considered hybrid or complex, which have audiovisual components and software, should be protected by the InfoSoc Directive since the software, for the CJEU and AG Sharpston, is merely incidental. Besides that, if the Software Directive applied, the rightsholders would receive less protection regarding the audiovisual components.

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<sup>94</sup> Mezei (n. 70) 53.

Despite the respect for the CJEU and AG Sharpston's conclusions, I share a different point of view about the incidental nature of software on hybrid products, like videogames and the application of the *lex specialis* only in cases that 'protected material falls entirely within the scope'<sup>95</sup> of the special law.

Regarding *lex specialis*, the principle states that a special law derogates the general one (*lex specialis derogat legi generali*). This principle is used against antinomies in the legal realm and to make the legal system more consistent. It is common to employ this principle at international and national levels as a treaty interpretation mechanism.

In the words of Silvia Zorzetto, 'the *lex specialis* principle is considered a rule feasible to prevent or to solve conflicts among legal rules within one and the same legal system and hence to delimit the material sphere among different laws and legal rules.'<sup>96</sup>

About the collision of laws, Emmerich de Vattel explained, as follows:

There is a collision or opposition between two laws, two promises, or two treaties, when a case occurs in which it is impossible to fulfill both at the same time, though otherwise the laws or treaties in question are not contradictory, and may be both fulfilled under different circumstances. They are considered as contrary in this particular case; and it is required to show which deserves the preference, or to which an exception ought to be made on the occasion. In order to guard against all mistake in the business, and to make the exception conformably to reason and justice, we should observe the following rules: [...]

§ 316. 5th Rule. 5. *Of the laws of two conventions, we ought (all other circumstances being equal) to prefer the one which is less general, and which approaches nearer to the point in question: because special matter admits of fewer exceptions than that which is general; it is enjoined with greater precision, and appears to have been more pointedly intended.*<sup>97</sup>

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<sup>95</sup> *Nintendo* (n. 27), Opinion of AG Sharpston, para 34

<sup>96</sup> Silvia Zorzetto, 'The Lex Specialis Principle and its Uses in Legal Argumentation An Analytical Inquire' [2013] 3(ISSN 2253-6655) *Eunomía Revista en Cultura de la Legalidad* 61-87

<sup>97</sup> Emmerich De Vattel, *Law of Nations or Principles of Natural Law* (Lonang Institute c2003) 275- 277

Regarding the conditions for the *lex specialis* to derogate from the *lex generalis*, firstly, the scope of the special law must be entirely included in the scope of the general law<sup>98</sup>. Secondly, there has to be an inconsistency or contradiction between the rules. Finally, the 'prior identification of distinct rules'<sup>99</sup> must be carried out, which means that the level of generality of each rule in question needs to be identified and determined.

The traditional view about *lex specialis* is that it is a tool for ruling a conflict, even though it could be used in situations where there are no conflicts or inconsistencies between the norms. It could operate in cases where general and special rules share the same features, and the special rule comes just to complete or change one of the points of the general one.

Notwithstanding, the practical application of the *lex specialis* principle often gives rise to serious misunderstandings between the special and the general nature of rules and their derogating effect. It was what happened in the cases above.

In the *UsedSoft* case, as already seen, the Court of Justice of the European Union concluded that Directive 2009/24 is *lex specialis* from the InfoSoc Directive. This nature is evident since the InfoSoc is about copyright and related rights on works in general. The Software Directive, on the other hand, is more specific, relating only to copyright in computer programs.

Nevertheless, in the *Nintendo* and *Tom Kabinet* cases, despite reinforcing the *lex specialis* nature of the Software Directive, AG Sharpston and the CJEU held that it does not rule out the application of the InfoSoc Directive (*lex generalis*), since the realm of application of the Software Directive, in their understanding, it is limited to products that are only software and nothing more. Hybrid or complex products made from software and other protected components are out of the scope because it is understood that software is merely incidental, so the products should be inserted into the *lex generalis*.

As can be seen, in these cases, especially in *Nintendo*, the reasoning was based on the understanding that the derogate power of *lex specialis* just operates when the entire work (all the

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<sup>98</sup> Tito Rendas, 'Lex Specialis(sima): Videogames and Technological Protection Measures in EU Copyright Law' [2015] 37(1) European Intellectual Property Review <<https://ssrn.com/abstract=2456273>> accessed 26 May 2022

<sup>99</sup> Zorretto (n. 98) 66

components) is covered by the special law. Thus, the legal nature of videogame is that it is a complex authorship work which is made with audiovisual components and software, so it is not only a computer program.

However, the understanding that software in videogames is merely incidental is a misconception. To have such a thought would be saying that videogames are just a 'series of related images'<sup>100</sup> and the only function of the software is just to make those images viewable. This is certainly not the purpose of the software which runs videogames.

The computer program which runs the game has the potential to make the user's experience interactive. Its development needs to mix several factors such as visual art, the system of control and artificial intelligence. Besides, the software has to enable the player to control a character or avatar by an input device. All these features together make the game immersive and attractive.

A great example of how the game engine (software) is not only incidental to videogames is the virtual reality games. The computer program of the videogame, combining the several features mentioned above, generates a 3D environment and creates a digitally immersive experience like real life while users are playing.

The virtual reality game software creates or generates sounds, videos and images in 3D and sends them to generate an output on headsets or goggles through the lens. The goggles or the headsets are over the user's eyes, which creates an immersive virtual experience for the users.<sup>101</sup>

Strapped on the head into the headsets, the sensors and controllers can capture the movement of the users' eyes and body and send them back to the VR system, which enables the user to play the game or navigate through the content, just making a gesture or gaze, or using hand controllers. In some games, the users can even feel and receive stimulus from the virtual reality software using VR gloves that generate an avatar hand on the program.<sup>102</sup>

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<sup>100</sup> Ramos and others (n. 52) para 12

<sup>101</sup> Software testing help, 'What Is Virtual Reality And How Does It Work' (*Software Testing Help*, 12 may 2022) <<https://www.softwaretestinghelp.com/what-is-virtual-reality/>> accessed 26 May 2022

<sup>102</sup> Software testing help (n. 103)

As it can be seen, the function of software on the videogames is to control the components in order to enable interaction with the user.<sup>103</sup> Through the software, the players control the objects and resources and make their decisions to achieve their goals in the game.<sup>104</sup> Reinforcing this understanding, Tito Rendas cited recital 10 of the Software Directive as follows:

The function of a computer program is to communicate and work together with other components of a computer system and with users and, for this purpose, a logical and, where appropriate, physical interconnection and interaction is required to permit all elements of software and hardware to work with other software and hardware and with users in all the ways in which they are intended to function.<sup>105</sup>

Another reason for dismissing the derogation power of *lex specialis* in the cases aforementioned is that the InfoSoc Directive is more protective than the Software one regarding copyright holders.

In the opinion of AG Sharpston, products which have software and audiovisual components in inseparable means have to be protected by InfoSoc Directive, otherwise, the rightsholders will not receive the right level of protection regarding audiovisual components. The CJEU accepted the AG opinion and argued that Software Directive gives less protection to these measures than InfoSoc. However, neither AG Sharpston, nor the CJEU analysed the reasons behind this benevolence of Directive 2009/24.

The Software Directive gives light protection for the TPMs and treats them in a different way from the InfoSoc since it tries to preserve one of the functions of the computer program, its interconnection and interaction, also called interoperability.<sup>106</sup> The directive provides some exceptions to the copyright holder's exclusive rights to enable these functions.

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<sup>103</sup> Rendas (n. 100)

<sup>104</sup> Saiqa Aleem and others, 'Game development software engineering process life cycle: a systematic review' [2016] 4(6) Journal of Software Engineering Research and Development <<https://doi.org/10.1186/s40411-016-0032-7>> accessed 26 May 2022

<sup>105</sup> Rendas (n. 100)

<sup>106</sup> Directive 2009/24/EC (n. 22) recital 10

The directive allows reproduction in cases that are 'technically necessary for the use of the program by the lawful acquirer'<sup>107</sup>. Additionally, the acquirer can perform any act that is necessary for the use of the program as long as it is aligned with the purpose that was intended, as well as 'acts to observe, study or test the functioning of the program, provided that those acts do not infringe the copyright in the program'.<sup>108</sup>

Moreover, the exclusive right of reproduction can be limited by circumstances in which the reproduction and translation of the code are necessary to obtain some information to reach the interoperability between other programs and the program created independently.<sup>109</sup>

In that sense, the Software Directive does not give less protection to harm the copyright owner's exclusive rights but rather to achieve interoperability and guarantee the functioning of the computer program. For that reason, the realm of *lex specialis* can not be interpreted in a restricted way, which limits its application just to products that fall entirely on its scope.

The fact that the product is not entirely software and has other copyrighted materials in it should not be a factor that justifies the immediate dismissal of the special law. On the contrary, this thesis reinforces the idea that even if the product falls partially within the scope of the special legislation, it is necessary to evaluate the factual situation in order to understand the functional and economic reasons for the distinguished treatment promoted by the law.

In the case of video games, as already demonstrated, the software cannot be considered merely incidental. Moreover, the special treatment given to TPMs by the Software Directive seeks to guarantee the perfect functioning of the game and its interoperability, which justifies, in my view, the diminished protection of the exclusive rights of the rightsholders through the application of the *lex specialis*.

Furthermore, suppose that it is accepted that the *lex specialis* is limited only to products that are merely software. This law will not have practical applicability since most software have at least

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<sup>107</sup> Directive 2009/24/EC (n. 22) recital 13

<sup>108</sup> Directive 2009/24/EC (n. 22) recital 14

<sup>109</sup> Directive 2009/24/EC (n. 22) recital 15

one other copyright component attached. Thus, what is considered *lex specialis* would actually become *lex specialissima*.<sup>110</sup>

## 6. THE EXHAUSTION AND THE NEW BUSINESS MODEL OF THE VIDEOGAME INDUSTRY

The lack of guidance, the necessity to analyse on a case-by-case basis, and the multiple decisions with a different understanding, especially in the national courts, contribute to the fear of the big companies whether the videogames could be considered digital goods and, consequently, the extension of the doctrine of exhaustion.

As already mentioned, traditionally, the videogames were sold attached to tangible means such as cartridges and floppy disks, DVDs or CDs, so they were sold as products through the business model called GaaP (Games as a product). In this model, the game company focuses only on the game's launch, and after the sale, the company does not provide any maintenance or update, so an ongoing relationship with the players is inexistent.

As the videogames were sold through tangible carriers, they did not face problems recognising the exhaustion doctrine's application. However, with technological advances, videogames started to be transferred as digital data through download, and business models in the videogame industry started to change.

The videogames industry took the vantage of technological advances to shift its business model to adapt it to the new reality. They moved away from features of the goods and started marketing the games in a way that proved to be much more profitable as services.

### 6.1. Games as Service (GaaS)

In this type of business model, the initial price of the game is low or even free. The revenue in this model is recurring, and the companies usually apply two types of monetisation strategies: in-game purchases and subscriptions.

#### 6.1.1. In-Game Purchases

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<sup>110</sup> Rendas (n. 100) 15

The strategy of 'in-game purchase' is based on microtransactions, where the developers make available new content, like items, weapons or even avatar skin, for a small price that could be purchased by the player, who can use such objects during the game.

Usually, as the player advances in the game, new content is released for purchase to increase its longevity. The items are made to help the player solve some game challenges, but the player can choose between buying or not the items. However, if he chooses not to buy, he will probably spend more hours playing the game to achieve the same objective, and in some cases, it is almost impossible to win without the item.

Another technique to influence the player to spend money on the game is to split the game into seasons. In this case, each season will be available only for a limited period of time to be played. After the expiration date, the next season will be available to purchase to continue playing.

The purpose of the 'in-game purchase' strategy is to maximise the revenue and the time players spend playing the game by updating and expanding the options on the game and the available products.

Furthermore, these microtransactions keep the initial game price low or even free. It appears more commonly in free-to-play games, where the player does not have to pay for the game but only for virtual purchases. Moreover, microtransactions can be made by money (real money) or by the virtual currency used in the game, which is purchased with real money.

### **6.1.2. *Subscription Model***

A subscription is a service where users make recurring fee payments to access a product or a service. This model is present in our daily life when we watch a movie on Netflix, rent a book on Amazon kindle unlimited or listen to music on Spotify.

On videogames, the fee could be to enable access to new content or features in a single game or to access a library of virtual games during the period of the subscription. The player decides the period when he chooses the subscription plan that fits better with his interests.

Usually, the payment can be made on a monthly or yearly basis and depending on the plan that is chosen, the player will be able to access the game on different devices and be entitled to all the

updates and services made available by the developers, such as in Fortnite's case, which the Epic Games regularly hosts lives, concerts and events on their servers.

Furthermore, the game as a service (GaaS) provides access to the game anytime and anywhere and enables the game to be played by multiple players who can collaborate with each other. However, for all these features to work correctly, the game companies must constantly provide server support to avoid failure.

The fact is that the in-game purchase and the subscription model are techniques with the primary objective to maximise the revenue but, consequently, avoid exhaustion.<sup>111</sup> As explained above, the exhaustion occurs after the first sale or other transfer of ownership of the product made by the rightsholder or with his consent.<sup>112</sup> However, the exhaustion does not apply to services, but not every licence sold is really a service.

The nature of videogames is still a debate, and it does not have a standardisation, as demonstrated above, so in my view, it cannot be dismissed in the first instance the application of the test applied on the *UsedSoft* case.

In the *UsedSoft* case, the CJEU stated that to consider online transmissions (licence) as a sale to apply exhaustion, the acquirer must pay a single fee corresponding to the product's or copy's economic value. The ownership must be transferred (permanency requirement), and a proof of the destruction of the original copy should be present.

Nonetheless, in 'Game as a Service' (GaaS), especially in subscription cases, the access to the games is temporary and made by cloud services. The players do not receive a permanent copy of the game, and after the expiration of the subscription period, access to the game is denied.

As the game companies always need to work on the game, providing support, updates, and new services, the games on the market today cannot be qualified as products (goods) anymore, and the transaction cannot be considered a sale since the lack of permanency, makes it impossible to fit on the requirements stated on the *UsedSoft* case.<sup>113</sup>

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<sup>111</sup> Erik Verbraeken: The Exhaustion Theory is not yet Exhausted, *les Nouvelles*, March 2013: pp. 7 – 12.

<sup>112</sup> Directive 2001/29/EC (InfoSoc) (n. 7) article 4 (2)

<sup>113</sup> Trapova and Fava (n. 62)

Moreover, based on the European Union's copyright law, this new business model is not related to distribution rights but to the right of communication to the public, which means that exhaustion does not apply.

## 7. CONCLUSION

The copyright law, especially related to the exhaustion doctrine, does not reflect our reality anymore. It is outdated in the social, economic and primarily technological realm. The new technologies and business models make clear that the scope of this doctrine needs to be restructured.

In the event we consider that the doctrine of exhaustion is only applicable to physical goods or purely software products, we are limiting its scope to the point of condemning it to disuse, bearing in mind that the migration from physical goods to the digital is increasingly faster, and soon physical products, in my view, tend to disappear.

Moreover, modern software is always integrated with other copyright subjects matter, which, according to the understanding that the CJEU has been adopting on *lex specialis*, rules out the application of the doctrine of exhaustion to digital goods.

The doctrine of exhaustion has essential functions for the market, as demonstrated in this work. Through this doctrine, monopolies are limited, competition is increased, and cultural preservation is promoted. We must not remove such functions and simply exclude their application merely to experience more rewarding business models. The law must keep up with this evolution and find means to adapt.

It is worth mentioning that copyright law does not have the purpose of giving unlimited profits to rightsholders. However, it only ensures a proper remuneration for his work to promote creativity.

In the case of videogames, the central focus of this work, these were traditionally sold in physical products. However, due to technological evolution, it started to have digital distribution through virtual platforms, which has generated debates about applying the principle of exhaustion to its new digital transmission models.

Nonetheless, as shown above, much has been debated. The discussion on the possibility of applying digital exhaustion has already been going on for almost two decades. Regarding videogames, the fact is that the new distribution models have become much closer to the services concept. Games are stored in the cloud, and permanent copies are not provided to the players. In order to access the game, the player must always be connected to the company's server through the internet.

Furthermore, in this model, there is no one-off payment but rather monthly or annual subscription fees or payments for in-game purchases. Also, the companies are constantly updating the game and providing technical support. Additionally, nowadays, there are already videogame platforms that are operating as a streaming model.

Finally, it is evident that the videogame industry has taken advantage of technology to increase its revenue, and one of the consequences is the dismissal of digital exhaustion. The outcome of this is that with the current legal and business configuration, even if the application of the doctrine of digital exhaustion would be accepted, in practice, it would no longer produce effects in the videogames market.



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