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The CJEU on the exhaustion of digital goods: copyright exhaustion does not apply to e-books – C-263/18, 19 December 2019

On 19 December 2019, the CJEU issued a ruling in a case (C-263/18) concerning the interpretation of the applicable rules on the exhaustion of copyrighted works.

The trial arose from a controversy between a company (Tom Kabinet) running a virtual reading club - consisting in making e-books available to its website registered users - and two associations defending the interests of Netherlands publishers, Nederlands Uitgeversverbond (NUV) and Groep Algemene Uitgevers (GAU). NUV and GAU maintained that Tom Kabinet's conduct consisted in an unauthorised communication of e-books to the public and applied to the Rechtbank Den Haag - District Court, The Hague, Netherlands, the referring Court - for an injunction prohibiting Tom Kabinet to make available the reproduction of e-books. The Rechtbank Den Haag referred four questions to the CJEU relating to the notion of exhaustion and its possible application in this case.

Exhaustion is the loss of the right to control resale of a given good covered by an IP right, after the first sale authorized by the IP owner. The European legislation introduced the principle of Community (now EU) exhaustion, whose scope is the whole territory of the European Union. As far as copyright is concerned, Directive 2001/29/EC (the "InfoSoc Directive", hereinafter "the directive") explains Community exhaustion as follows: "*The first sale in the Community of the original of a work or copies thereof by the rightholder or with his consent exhausts the right to control resale of that object in the Community. This right should not be exhausted in respect of the original or of copies thereof sold by the rightholder or with his consent outside the Community*" (Recital 28).

In this case, the focal point of the referral was **to determine if the supply by downloading, for permanent use, of an e-book constitutes an act of distribution for the purposes of Article 4(1) of the directive, or whether such supply is covered by the concept of "communication to the public" within the meaning of Article 3(1)**. The answer to that question is important, since - on the one hand - the distribution right is subject to the rule of exhaustion, as provided for in Article 4(2):

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

On the other hand, Article 3(3), on the right of communication to the public, explicitly excludes exhaustion:

"The rights referred to in paragraphs 1 and 2 shall not be exhausted by any act of communication to the public or making available to the public as set out in this Article".

The starting point of the reasoning of the Court as to determine whether the making available of "second-hand" e-books is to be viewed as distribution or communication to the public is the interpretation of the equivalent rules (Articles 8 and 6) of WIPO's World Copyright Treaty (WCT), since, as pointed out in the directive itself, the latter implements the WCT. This analysis and that of the *travaux préparatoires* for the directive shows that **the rule of exhaustion should be reserved for the distribution of tangible objects** (e.g. books on a material medium). Concerning the drafting process of the directive, the Court reminds that that

the Member States agreed to consider **interactive on-demand transmission as a new form of exploitation of intellectual property**, to be covered by the right to control communication to the public. At the same time, there was an agreement on the fact that the distribution right applies exclusively to physical copies, hence not covering such a transmission. Indeed, applying exhaustion to e-books would be likely to affect the interests of rightholders in obtaining appropriate reward more than in the case of books on a material medium: digital copies of e-books do not deteriorate, whilst physical ones do, as underlined by the Court.

Therefore, **the Court concluded that e-books are subject to communication to the public**, a notion to be defined broadly, i.e. covering all communication to the public not present at the place where the communication originates.

The CJEU highlighted that, based on art. 3(1) of the directive, the concept of communication to the public involves two cumulative criteria:

- An act of communication of a work, and

- The communication of that same work to a public.

According to the Court, the offering of a work on a website is an act of communication of a work *per se*. Thus, in the case at issue, the making available of works to anyone registered with the website must be considered a communication of a work pursuant to art. 3 of the directive, irrespective of whether "second-hand" e-books are actually downloaded by the online reading-club's registered users. In order to assess the second criterion, i.e. the communication of the work to the public, one must consider the number of persons able to access the same work, both at the same time and in succession. Since the Court found that, in the present case, the number of persons who may have access to the same work is substantial, it concluded that it should be regarded as being communicated to a public - subject to verification by the referring Court.

Lastly, the CJEU noted that, as to be defined as a communication to the public, a protected work must be communicated

- Using specific technical means, different from those previously used or, alternatively,

- **To a new public**, not taken into account by the copyright holders when they authorised the initial communication of their work to the public.

In the case at hand, the communication by Tom Kabinet was made to a public not taken into account by the copyright holders in the first instance, thus, it is actually a communication to the public.