Exhaustion of the Distribution Right: Physical v Electronic Books

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Summary

This paper examines the Distribution Right, as one of the economic rights in the system of copyright law, primarily focused within the scope of European legislation and the jurisdiction of the European Court of Justice. It analyses the exhaustion principle of the distribution right and its application in the context of physical and electronic books emphasizing differences and similarities through European judicial practice with a certain comparison with American regulations, thereof known as the first sale doctrine.

Keywords: author's rights, copyrights, distribution right, exhaustion principle, first sale doctrine, distribution of electronic books, a second-hand market of digital goods

Sažetak

Ovaj rad analizira pravo distribucije, kao dio ekonomskog prava u okviru autorskih prava, prvenstveno kroz europsko pravo i pravnu praksu Europskog suda pravde. Nadalje se razrađuje „iscrpljivanje" distribucijskog prava i primjena ovog principa na fizičke i elektroničke knjige naglašavajući sličnosti i razlike nastale kroz europsku sudsku praksu s kratkim osvrtima na američki sustav ovog principa znanog kao pravo prve prodaje.

Ključne riječi: autorsko pravo, distribucijsko pravo, pravo iscrpljenja, pravo prve prodaje, distribucija elektroničkih knjiga, tržište rabljenih elektroničkih dobara

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1. Introduction

Intellectual Property or IP includes various intellectual creations including but not limited to literary, scientific, artistic work, designs and symbols, names and images etc. Development of protection for author's rights, as one type of IP, started slowly with passing acts and statutes on national levels until the 19th century when the first significant treaty has been passed. The foundation for author's rights protection has been set with the Berne Convention for the Protection of Literary and Artistic Works from 1886 (hereafter: The Berne Convention) which determined the minimum protection for the authors, set the exclusive rights and their exceptions and limitations. The definition of the author's rights, or known as copyrights in common law countries, describes it as "the exclusive legal right to reproduce, publish, sell, or distribute the matter and form of something, such as a literary, musical, or artistic work"[1], where each part of the definition has its meaning explained in more details in international conventions. The Agreement on Trade-Related Aspects of Intellectual Property Rights[2] (hereafter: TRIPS) is considered to be "the most comprehensive multilateral agreement on intellectual property" as it sets the minimum of the regulation for member states regards trade side of IP. Protection of literary and artistic work in electronic form was set up with the WIPO[3] Copyright Treaty (hereafter: WCT) from 1996 which also regulates protection of software and databases.[4]

In the European Union harmonization of the author's rights and related rights had started with Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the

[1] https://www.merriam-webster.com/dictionary/copyright, accessed December 3, 2022
[2] https://www.wto.org/english/tratop_e/trips_e/intel2_e.htm, accessed December 3, 2022
[3] World Intellectual Property Organization is an agency of the UN founded in 1967 to encourage innovations through an internationally recognized set of rules to help society to get the best of intellectual property, see more: https://www.wipo.int/about-wipo/en/
[4] Bammel, J., From Paper to Platform: Publishing, Intellectual Property and the Digital Revolution, *World Intellectual Property Organization*, Geneva, 2021, Pg. 107

harmonization of certain aspects of copyright and related rights in the information society (hereafter: InfoSoc Directive) and it's been supplemented with Directive (EU) 2019/790 of the European Parliament and of the Council of 17 April 2019 on Copyright and Related Rights in the Digital Single Market (hereafter: Copyright Directive). There are two categories of copyrights set by the previously mentioned treaties, in the continental legal system also known as author's rights, those are economic and moral rights. The purpose of economic rights is for the author or third person to gain financial benefit due to protected work being used by others. Alongside, there are moral rights that aim to conserve the authorship of the protected work by having it linked to the original author in a certain way.[5]

This paper examines the distribution part of the before-mentioned copyright definition, as one of the economic rights in the copyright scope of exclusive rights, in regard to the distribution of physical and electronic books. The first part explains the definition of the distribution right and the exhaustion thereof in physical and digital environments. The second part of the paper focuses on the distribution of books through the judicial practice and principles set therein which may give an answer to whether it would be possible to set up a market for second-hand digital goods.

This paper is the result of author's experience from Erasmus exchange study at Masaryk University in Brno during the spring semester 2022 and discussions from courses taken on the topics of copyrights and cyberlaw.

2. Distribution Right

Economic rights enable the author to "authorize or prohibit reproduction of the work in various forms, such as printed publications or sound recordings; distribution of copies of the work;

[5] WIPO, *Understanding Copyright and Related Rights,* WIPO Publication No. 909E, 2016, Pg. 9

public performance of the work; broadcasting or other communication of the work to the public; translation of the work into other languages; and adaptation of the work, such as turning a novel into a screenplay".[6] The InfoSoc Directive defines the distribution right in Art. 4 (1) as "the exclusive right to authorise or prohibit any form of distribution to the public by sale or otherwise". This right is exhausted upon the first transfer of the ownership, which enables the recipient to transfer the ownership to the third person without needing permission from the copyright owner.[7] This is known as the "first sale doctrine" in the common law countries or "the exhaustion of the distribution right" in continental legal systems.[8]

Before it was entitled by law, the distribution right was transferred through "publishing agreements" where parties could decide "…how to put the work in the sale, under which conditions, territory, expiry of the said right, allowed way of the use of the issued copies…".[9] With the digitalization and appearance of file-sharing platforms, distribution rights and infringement thereof went along with the infringement of the reproduction right. As an example, if you made a copy of protected work and distributed it not respecting the author's rights, that would suffice to conclude it as an infringement of the distribution right, and of the reproduction right.[10] Various courts in the USA had similar opinions regarding the above, with minor differences depending on specific cases.

The judicial practice started to expand and the court's opinions started to differ. For some, "…making copies available…" was enough to constitute an infringement of the distribution right,

[6] WIPO *Understanding Copyright and Related Rights, supra* note 5, Pg. 10
[7] *Ibid.*, Pg. 11
[8] Henneberg, I., *Autorsko pravo*, Informator, 2001, Pg. 140
[9] *Ibid*., Pg. 138
[10] Menell, P. S., In Search of Copyright's Lost Ark: Interpreting the Right to Distribute in the Internet Age, *Journal of the Copyright Society of the USA*, *vol*. 59, no. 1, 2011., p. 1 – 67, Pg. 7

while others asked that "…plaintiff prove not merely that the defendant has made the work available, but that the work was distributed to third parties.".[11] Even today, federal courts in the USA aren't aligned on what is considered an infringement of the distribution right when it comes to peer-to-peer platforms and whether the "to make available" theory is sufficient or needs to be modified. The reason for this non-uniform view lies behind the fact that the Berne Convention doesn't explicitly define the scope of the distribution right as "…it doesn't cover transmissions of copies of the work themselves…".[12] Although this was amended with WIPO treaties, the American administration believed they'd already conformed to the international treaties and that the make available right, as a part of communication to the public, was included in the domestic legislation under the distribution right.[13] The previous issue opened the question of what's the scope of the distribution right and does it include electronic transmission or just physical transfer.

The implemented "umbrella solution" for the right of making available to the public is set in Art. 8 of the WCT granting "…the exclusive right of authorizing 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 these works from a place and at a time individually chosen by them." Almost identical provision was implemented in the Art. 3 of the InfoSoc Directive by the EU legislator.

The general term of the duration of author's rights in Europe is the lifetime of the author plus 70 years *post mortem auctoris* (hereafter: p.m.a.) and is calculated from the beginning of the year after the author's death. The Berne Convention originally set the 50 years p.m.a. "…as non-

[11] Menell, P. S., *supra* note 10, Pp. 18 – 19
[12] Carson, D. O., Making the Making Available Rights Available - 22nd Annual Horace S. Manges Lecture, February 3, 2009., *Columbia Journal of Law and the Arts*, *vol*. 33, no. 2, 2010, Pp. 135 – 164, Pg. 142
[13] *Ibid.*, Pp. 143 – 146

mandatory term, as the term of the protection is regulated by the law of the country the person asks for protection, but not exceeding the term set by the country of origin.".[14] After the revisions of the Berne Convention, this term became the minimum that the European Union extended by 20 years. [15] Since Croatia is the part of the EU since 2013, the duration of the protection is the lifetime of the author plus 70 years p.m.a as well.

2.2. Digital Distribution

The internet has enabled consumers to get in direct communication with creators, distributors and authors of protected works which made distribution faster, more cost effective and less restricting.[16] Protected works have been transformed into electronic versions and became accessible by legal and illegal ways. As peer-to-peer file-sharing platforms became popular, the infringement of author's rights became greater. One of the most significant cases deciding on the liability of the Internet Service Provider (hereafter: ISP), which laid down the base for future claims for online infringement, was Sony v Universal City from 1984. The lawsuit was based on contributory liability due to Sony being the manufacturer of the device used for infringing and no legislation for secondary liability in the USA at the time.[17] If court decided that Sony wasn't liable, individuals could keep using Sony products to infringe the copyrights and the plaintiff would need to litigate against each individual. However, if the court decided that Sony was liable, it could prevent it from entering the market with new technology and it would halt the development of other products that could potentially resolve the current issue by making the infringing difficult.

[14] Henneberg, I., *supra* note 8, Pg. 191
[15] *Ibid.*, Pg. 192
[16] Picker, R. C., Copyright as entry policy: the case of digital distribution, *The Antitrust Bulletin*, *vol.* 47, no. 2-3, 2002., Pp. 423 - 463, Pg. 429
[17] *Ibid.*, Pg. 442

The case was concluded before the Supreme Court by ruling that Sony wasn't liable for infringement as an initiative to make more advanced technology.[18]

Following the mentioned ruling, more peer-to-peer file-sharing platforms have emerged that enabled individuals to infringe protected works by downloading electronic versions and sharing them among themselves. Books, now transformed into electronic versions, were shared through websites like The Pirate Bay, LibGenesis, Z-Library and others. The Court of Justice of European Union (hereafter: the CJEU) ruled in favour of the plaintiff in *Stichting Brein v Ziggo* from 2015 saying that the act of "…making available and managing a sharing platform which by means of indexation of metadata relating to protected works and the provision of a search engine allows users to locate those works and to share them through peer-to-peer network…" is infringing. With this decision, The Pirate Bay was shut down and communication to the public was established in the cases where ISP manages a website/system through which users trace and illegally download protected works.[19] The world's largest library, as Z-Library describes itself, is a platform that provided free illegal access to a large number of protected literary and scientific works and was shut down in a similar way in November 2022. The indictment is based on "…the criminal copyright infringement, wire fraud and money laundering" while the proceeding is still ongoing and the "domain was taken offline and seized by the US government.".[20] This case has restarted the debate about the accessibility of scientific and educational work in the USA, as the platform was largely used by students. If the fundamental purpose of IP protection is to enable accessibility, development and creativity, one can wonder why those who need this access the most need to go

[18]https://www.lexisnexis.com/community/casebrief/p/casebrief-sony-corp-of-am-v-universal-city-studios-inc, accessed February 15, 2023
[19] https://copyrightblog.kluweriplaw.com/2017/06/30/cjeu-decision-ziggo-pirate-bay-communicates-works-public/ accessed January 3, 2023
[20] https://www.justice.gov/usao-edny/pr/two-russian-nationals-charged-running-massive-e-book-piracy-website, accessed January 3, 2023

through illegal ways to obtain it. Nevertheless, these are only a few examples of how digital distribution changed the way one can infringe protected work that has been well protected for decades.

3. Exhaustion Principle

The exhaustion of the distribution right is also known as the "first sale doctrine" in common law system and it stands for the "…exhaustion of the author's right to distribute upon the first lawful transfer of the ownership.".[21] The purpose of this principle is to "protect the interests, support fair competition, prevent restrictions and abusive dominant position in the market.".[22] The first sale doctrine (or exhaustion principle) in the USA was first concluded in the *Bobbs-Merrill Co. v Straus* case from 1908 before the US Supreme Court, in which the plaintiff claimed that the defendants infringed their "sole right and liberty of…vending" by reselling the books published by the plaintiff for a lower price than the original one. In its ruling, the Court said that the distribution right was exhausted "…with the respect to the particular copies sold" and that there may exist restricting contractual obligations which prohibit further resale of certain copy, but in this case there weren't any.[23] The fair use doctrine was justified considering four criteria which are "the purpose and character of the use, the nature of the copyrighted work, the amount of the copyrighted work that is used and the effect the use will have on the market and the copyrighted work's value".[24]

[21] Henneberg, I., *supra* note 8, Pg. 140
[22] Mammadli, A., Digital Exhaustion, *Baku State University Law Review, vol*. 7, no. 1, 2021, Pp. 81 – 97, Pg. 87
[23] Perzanowski, A, Schultz, J., Digital Exhaustion, *UCLA Law Review, vol*. 58, no. 4, 2011, Pp. 889 – 946, Pg. 908 – 909
[24] Soma, J. T., Kugler, M. K., Why Rent When You Can Own: How ReDigi, Apple, and Amazon Will Use the Cloud and the Digital First Sale Doctrine to Resell Music, E-Books, Games, and Movies, *NCJL & Tech, vol.* 15, no. 3, 2013, Pp. 425 – 462, Pg. 432; for more see: Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417, 1984

In Europe, this principle is known as the exhaustion principle and it was formulated before the German Supreme Court at the beginning of 20th century in context of the exhaustion of the rights regarding trademark. At the time, rightsholder's distribution right was exhausted upon the first release into the circulation anywhere in the world by the rightsholder or with his consent.[25] This format is known as international exhaustion and is no longer applied in Germany since it's part of the European Union who applies community exhaustion which is explained in more details below.

In some common law countries, implied license theory puts the exhaustion under the discretion of the rightsholder by implying the license under which the acquirer gets the protected goods.[26] If the rightsholder didn't explicitly stated that further distribution of the work wasn't prohibited, during the transferred through licence, it was presumed that licence allowed the reselling as well. [27] The fallback of this theory is uncertainty for the third acquirers who may be restricted by the initial license agreement they're not the party of.

The format of the exhaustion principle can be national, regional or international depending on whether the exhaustion occurs only inside of the single nation's border, regionally or upon the first authorized sale anywhere in the world. The European Union implemented regional exhaustion principle, known as community exhaustion, through the judicial practice, legislation and treaties that established the European Economic Area and European Community.[28] Consequently, the rightsholder's distribution right is exhausted after the first authorized sale in the member state of

[25] Matanovac, R., *Teritorijalni aspekt načela iscrpljenja prava koja proizlaze iz žiga u europskom i hrvatskom pravu*, u: Gliha, I.; Josipović, T.; Matanovac, R.; Belaj, M.; Baretić, M.; Nikšić, S.; Enrst, H.; Keglević, A. (ur.), *Liber Amicorum Nikola Gavella: Građansko pravo u razvoju*, Zagreb, 2007, Pp. 485 – 521, Pg. 502
[26] *Ibid.*
[27] *Ibid.*
[28] *Ibid.*, Pp. 503 – 505

the European Economic Area and he no longer has control over the distribution of the said work inside the borders of the country members. Since IP is territorial and tied to the national borders, it clashes with the fundamental principles of four freedoms of the European Single Market, specifically with the freedom of movement of goods and services. Thus, the community exhaustion principle has been set up as to ensure the protection of the IP and of four freedoms.[29]

The community exhaustion has been included in EU legislation in the 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 (hereafter: Rental and Lending Right Directive), InfoSoc Directive, Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs (hereafter: Software Directive), Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States relating to trade marks (hereafter: Trademark Directive) and Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases (hereafter: Database Directive).

Before implementation of community exhaustion principle, there was a discussion on whether to implement international or regional exhaustion in the EU market as to see which format would benefit the European Single Market. Community exhaustion principle prevailed as it was considered that it protects the interests of member states of the European Economic Area the best. Moreover, the CJEU confirmed in *Silhouette v Hartlauer* that Trademark Directive stipulates community exhaustion principle and that Member States can't implement international exhaustion

[29] Matanovac, R., *supra* note 25, Pp. 504 – 505

in their legislation or judicial practice. This has been reconfirmed in the *Sebago, Davidoff and Levi Strauss* cases.[30]

The international exhaustion principle has the greatest scope, where rightsholder can no longer control further distribution of the protected work after it has been put to the market by him or with his consent anywhere in the world. In this case it's possible to prescribe reciprocity but it's difficult to verify adherence. Each country can decide for its own which principle they'll apply unless they're obliged to adhere to the treaty that already regulated this topic. [31]

Aforementioned international sources, Berne Convention and TRIPs agreement, didn't have a consensus on this principle and left it to national legislators to elaborate. Furthermore, Agreed Statement on Art. 6 and 7 of the WCT stipulates "…that the words "copies" and "original and copies", used in the context of the rights of distribution and rental, refer only "to fixed copies that can be put into circulation as tangible objects.". As a result, it's not clear whether the exhaustion principle can be applied to digital copies at all or the mere fact of "…the possibility to fix the creation on a material support, and not that the fixation has already happened…" would suffice for the exhaustion to happen.[32] Before the widespread of digital distribution, the distribution right covered the circulation of tangible goods while the right of communication to the public and making available right were associated with intangible works. In the EU, community exhaustion principle was set up excluding the intangibles and services similarly as the previously mentioned treaties.[33]

[30] Matanovac, R., *supra* note 25, Pg. 505
[31] *Ibid.*, Pg. 487
[32] Sganga, C., A Plea for Digital Exhaustion in EU Copyright Law, *Journal of Intellectual Property, Information Technology and Electronic Commerce Law*, *vol*. 9, no. 3, 2018, Pp. 211 – 239, Pg. 216
[33] *Ibid.*, Pp. 216 – 218

The exhaustion principle can't be applied in the digital environment as it is in the physical world. Even if the person legally acquires the protected work, during the transfer of the electronic version, temporary copies are saved in random access memory (RAM) which has been classified as "an act of reproduction".[34] The transfer of the protected work should end with a single copy, but instead there are additional temporary copies needed to enable the transaction.[35] The mentioned problem could be facilitated by requesting the alleged infringer to prove that there are no existing copies after the resale. Furthermore, as with all the cases, the court could take into account all the circumstances, such as the character of the alleged infringer, and whether the transaction was made for reselling purposes or personal use.[36]

3.1. Digital Exhaustion

Art. 4 of the InfoSoc Directive doesn't extend the exhaustion principle further than tangible goods and there's no legislation on the EU level stating the opposite. Thus, national legislative bodies in theory may decide to include the intangibles under the scope of the exhaustion principle even if this would disrupt the internal EU market.[37] Contrarily, the distribution of online copies of computer programs may be exhausted regardless of its intangible form. Computer programs are regulated by *lex specialis* Software Directive, which doesn't specify material and immaterial copies, but protects "the expression in any form of a computer program". Software Directive covers the right of reproduction, the right of transformation and "the right to do or authorise 'any form of distribution' of the original computer program or of copies thereof". This was discussed in the Case C-128/11 UsedSoft GmbH v Oracle International Corp., Judgment of the Court (Grand

[34] Perzanowski, A., Schultz, J., *supra* note 23, Pg. 902
[35] *Ibid.*, Pp. 938, 942
[36] *Ibid.*, Pg. 939
[37] Rosati, E., Online copyright exhaustion in a post-Allposters world, *Journal of Intellectual Property Law & Practice*, *Vol.* 10, No. 9, 2015, Pp. 673 – 681, Pp. 674 – 675

Chamber) of July 3, 2012 (hereafter: UsedSoft case) where the defendant was reselling used software licenses that they acquired from the customers of the plaintiff. Oracle, the plaintiff, claimed that such action was infringing their right of reproduction since their licence agreements had a provision stating "...the use of the programs is non-transferable".[38] Under the exhaustion principle, the right holder forfeits the control of the use of the protected work once it's rightfully transferred to the acquirer. Thus, the licence provision and the exhaustion principle might seem contrary.[39]

Questions raised before the CJEU were whether the distribution right was exhausted when the acquirer makes a copy of a computer program by downloading it with the right holder's consent to a data carrier, and if yes, can the person who obtains the used software licence as the lawful acquirer "…rely on exhaustion of the right to distribute the copy of the computer program made by the first acquirer with the right holder's consent by downloading the program from the internet onto a data carrier if the first acquirer has erased his program copy or no longer uses it?".[40]

The CJEU confirmed that Art. 4(2) of the Software Directive allows the exhaustion of the distribution of a copy of a computer program "if the copyright holder who has authorised, even free of charge, the downloading of that copy from the internet onto a data carrier has also conferred, in return for payment of a fee intended to enable him to obtain a remuneration corresponding to the economic value of the copy of the work of which he is the proprietor, a right to use that copy for an unlimited period.".[41] In the case of resale of the licence agreement under the above-mentioned requirements, the next acquirer, and the following, can rely on the exhaustion of the

[38] UsedSoft case, Par. 28
[39] Mammadli, A., *supra* note 22, Pg. 88
[40] UsedSoft case, Par. 34
[41] UsedSoft case, Par. 89 (1)

distribution right as lawful acquirers under Art. 4(2) and Art. 5(1) of the Software Directive.[42] Even though the computer programs are protected as literary works as per Art. 1(1) of the Software Directive, they're different from books in the way that they're composed of "...sequences of instructions intended to be executed by a machine" and their purpose is to enable functioning of the machine, not to be read by a man.[43] Furthermore, the program needs to be run by a computer regardless of the form it was distributed in and it needs to be updated frequently which is usually regulated by the licence agreement that accompanies the software. Accordingly, the online download is to be covered by the distribution right as described in the Software Directive, which doesn't state that exhaustion of the said right is applicable only to tangible goods as the InfoSoc Directive does. Furthermore, the Software Directive stipulates the exception of the reproduction right for "the acts necessary for the use of the computer program by the lawful acquirer in accordance with its intended purpose".[44]

De facto, the digital exhaustion of computer programs has been confirmed under the argument that allowing the copyright holder to seek further remuneration after the first sale "…of computer programs downloaded from the internet would go beyond what is necessary to safeguard the specific subject-matter of the intellectual property concerned.".[45] Additionally, the CJEU stated that licence provision prohibiting the further use after the transfer is restrictive. Furthermore, the first acquirer must make his copy of work unusable at the time of the resale for the resale to be non-infringing.[46] However, other digital works haven't been granted this fortune.

[42] UsedSoft case, Par. 89 (2)
[43] Case C-263/18 Nederlands Uitgeversverbond and Groep Algemene Uitgevers v Tom Kabinet Internet BV and Others, Opinion of AG Szpunar delivered on 10 September 2019, Par. 57
[44] *Ibid.*, Par. 64 – 66
[45] UsedSoft case, Par. 63
[46] Mammadli, A., *supra* note 22, Pg. 89

The US copyright Act doesn't differentiate intangible and tangible copies, so whether the first sale doctrine can be applied to digital copies is still to be discussed. MAI Systems Corp. v Peak Computers Inc. case decided that loading the computer program to temporary memory is considered making a copy under US Copyright Act and an infringing act.[47] The case where courts came the closest to discussing the exhaustion principle of intangible goods is Capitol Records v ReDigi. The digital marketplace was set up by ReDigi where its users could sell music. ReDigi used protective measures to prevent users from obtaining more than a single copy of the work and to prevent the seller from keeping the copy after it was sold.[48] The customers would download the program through which they could sell and buy second-hand music files. The program was set up in a way that the file wasn't reproduced during the transfer period, as the defendant claimed, but this argument wasn't accepted by the court. Furthermore, the service would demand of the customers to delete the files under the threat of suspension of their account in case it detected they weren't disposed of upon the sale.[49]

The plaintiff claimed such acts are an infringement of reproduction and distribution rights, while the defendant referred to the first sale doctrine. The court ruled that "any transfer, not depending on whether one or more copies exist, will be considered as reproduction".[50] Moreover, the court stated that the "copy of a copy - is another reproduction" and as such doesn't fall under the first sale doctrine which is applicable only "to a particular copy", that is the one received from the right holder.[51] ReDigi was found "liable for direct, vicarious, and contributory infringement of Capitol's distribution and reproduction rights".[52] The defendant also claimed that their new

[47] Mammadli, A., *supra* note 22, Pg. 91
[48] *Ibid.*, Pg. 92 – 93
[49] Soma, J. T., Kugler, M. K., *supra* note 24, Pg. 437 – 438
[50] Mammadli, A., *supra* note 22, Pg. 93
[51] *Ibid.*, Pg. 93
[52] Soma, J. T., Kugler, M. K., *supra* note 24, Pg. 439

business model, ReDigi 2.0., allows the customers to download music files from the purchasing site directly to the cloud without making a copy on the additional tangible medium, but the court didn't want to elaborate.[53] The original file would be fixed on one medium, the cloud server, and the transfer of it would be done by licensing, similarly as it's done today with digital goods. However, this new model opened the question of what would happen if customers wanted to download music to their phone or computer.[54] Since the court ruled the infringement of the right of reproduction, the issue of exhaustion of intangible goods was left to Congress to elaborate on in the future.[55]

4. Physical Books

First known works that can be considered to be a book in the rudimentary form are the scribbles in stone, wood or bones from Mesopotamia. Later, with the emergence of paper rolls it became easier for humankind to note important events and facts. In Roman law, books were protected by contracts of purchase between publishers and authors. The production of books at the time was in the form of making handwritten copies. The transfer of ownership of the physical book, done by the purchase contract, also entailed the transfer of the right to publish and further distribution. There wasn't a need for more detailed legal protection as the authors were praised for their work and would get monetary and material help from the well-standing members of society. During the Middle Ages, the transcriptions were done by monks in religious institutions and the distribution was mostly limited to among themselves.[56] For these reasons, the moral and economic rights of authors evolved profoundly in later history.

[53] Soma, J. T., Kugler, M. K., *supra* note 24, Pg. 445
[54] *Ibid.*, Pg. 447
[55] Rosati, E., *supra* note 37, Pg. 679
[56] Henneberg, I., *supra* note 8, Pp. 12 – 13

With the invention of the first printing press in the 15th century, the distribution of books became more widespread and profitable. As a result, the need for better legal protection against competitors arose. To solve this problem, publishers would get an "…exclusive right (monopoly) of printing and distribution of the books…". The highest state authority would ascribe this right, called "individual privilege", to the publishers for a certain time period, at first for five years.[57] The punishment for the infringement of publisher's privileges was the confiscation of illegally printed works and a monetary fine. Later in history, privileges gained the political function in the form of censorship of the public press, along with the monetary and protective function they originally had.[58] The difference between privileges and laws is that privileges were given individually while laws are passed *erga omnes,* as such only certain individuals were granted protection until laws were starting to be passed.

In the 17th century, the British Parliament passed the Statue of Anne that regulated distribution and enabled censorship of the press by not allowing the printing of books without being registered with the Stationer's Company. Through the 17th, 18th and 19th century many laws were passed with provisions allowing the publishers to publish and distribute works while protecting the authors with more or less the same requirements.[59] The Berne Convention from 1886 was the first international convention extending authorship protection to above national level. This international protection system keeps extending and improving with other treaties concluded during the 20th and 21st century.

[57] Henneberg, I., *supra* note 8, Pp. 13 – 14
[58] *Ibid.*, Pg. 14
[59] *Ibid.*, Pp. 15 – 18

4.1. Publishing Agreement

Distribution of books is concluded through agreement known as the publishing agreement. This agreement is defined as an "agreement under which author or other copyright holder transfers right to reproduce and distribute certain work to the publisher, who accepts to do so accordingly".[60] Both the author and the publisher enter this legal relationship with the aim to disclose the author's work to the public. Usually, the author will have the right to monetary remuneration depending on the provisions of the agreement and the legal environment. In Croatian legislation the copyright system, also known as author's rights, is protected by Author's Rights and Related Rights Act[61] (hereafter: ZASP) and it regulates the publisher's agreements, in alignment with the Obligation's Act[62] which is a general statute applicable to all agreements.[63] In Croatia, the parties can agree on the amount of remuneration, but even if they don't include the remuneration the author has a right to it by the legal presumption prescribed in Art. 72 of ZASP, if the parties don't explicitly omit it from the agreement.[64] The work protected under this agreement can be "…any work reproduced by graphical methods, such as literary, dramatic, musical or choreographical works…".[65] Different legal systems will include different forms of works under the scope of the publisher's agreement. The ZASP includes works that can be materialized, either on paper or other physical mediums, while other countries may include only literary, scientific or musical works.[66]

[60] Henneberg, I., *supra* note 8, Pg. 168
[61] Zakon o autorskom pravu i srodnim pravima ("Narodne Novine" br. 111/21) from October 22, 2021
[62] Zakon o obveznim odnosima, ("Narodne Novine" br. 35/05, 41/08, 125/11, 78/15, 29/18, 126/21, 114/22, 156/22) from Jan 1, 2023, hereafter: ZOO
[63] Gliha, I., Nakladnički ugovor u svijetlu njegova razvoja u Hrvatskoj, *Zbornik Pravnog fakulteta u Zagrebu*, *Vol.* 45, no. 4-5, 1995, Pp. 483 – 513, Pg. 496 and Art. 14 (3) ZOO
[64] *Ibid.*, Pp. 494 – 495
[65] Henneberg, I., *supra* note 8, Pg. 169
[66] Gliha, I., *supra* note 63, Pg. 501

The scope of the distribution right under this type of agreement can be territorially determined or undetermined, where in the latter case the copies can be distributed around the world.[67] Similarly, the term of validity of the agreement can be regulated, if "undetermined it encompasses the duration of economical rights set by the law for certain work in the country of the agreement" [68] which means 70 years p.m.a. as described before for the EU countries. If the duration of the agreement is determined, the "publisher may publish the number of works he deems necessary" and if duration is undetermined, the number of published copies will be set by the agreement.[69] For the agreement to be valid it usually needs to be in written form, but the ZASP in Art. 75 allows the exception for "small publisher's agreement", e.g. for publishing in the press and scientific magazines. The object of the agreement is "publishing, reproduction and distribution of a determined author's work" which may not yet be finished but needs to be individually determined.[70] Publishers will be granted the mentioned rights usually as exclusive ones, but it can be regulated differently by the agreement.[71] Furthermore, if publisher gains a profit that's disproportionate to the author's remuneration, the author might have the right to claim a fair share of the profits. Croatian legislation gives this right only to the party that's the author and not to other rightsholders that may conclude this type of agreement.[72] It's seen from above analysis that Croatian legislation gives a great freedom to the parties to conclude the agreement as they wish, while ensuring that minimum set of protection is granted to the authors in alignment with European and international legislation.

[67] Henneberg, I., *supra* note 8, Pg. 170
[68] *Ibid.*, Pg. 171
[69] *Ibid.*
[70] Gliha, I., *supra* note 63, Pg. 501
[71] *Ibid.*, Pg. 495
[72] *Ibid.*, Pg. 507

4.2. Resale of second-hand books and modifications

As aforementioned, the Bobbs-Merrill case set up the first sale doctrine, but following it came other cases which further established the scope of exhaustion of the distribution right regarding physical books. Doan v American Book Co. case set the right to renew or repair damaged copies, as it's a part of the ownership of the said copy and "includes the right to maintain the book as nearly as possible in its original condition".[73] However, further discussion was halted with the Ginn&Co. v Apollo Publishing case where Apollo acquired children's books and had to repair and rewrite a part of the copies as they were too damaged. Since they weren't authorised "to publish a new edition of the book, it could not reprint any material part of it". Court found this action an infringement rather than repairment.[74]

Modification and adaptation of transferred copies was discussed in Kipling v G.P. Putnam's Sons case where the defendant bought pages of protected work and bound them into a multivolume set. Thus, by combining the existing copies he made a new work but the court stated that he was entitled to it as a the lawful owner of such.[75] Contrary, in the National Geographic Society v Classified Geographic Inc. case the court ruled the infringement of the adaptation right as the defendant regrouped the individual articles, taken from different copies of the said magazine, into new bound volumes.[76] With the time, the general derivative works right was established that covers adaptation, which substantially changes the original work, of the legally acquired copy of protected work. Derivative work is the addition or change of the original work that has been authorised by the rightsholder, or of the work in the public domain. To be considered a derivative work, the original work must be substantially changed. As such, the newly derived piece of work

[73] Perzanowski, A., Schultz, J., *supra* note 23, Pp. 913 – 914
[74] *Ibid.*, Pg. 915
[75] *Ibid.*, Pg. 916
[76] *Ibid.*

is protected by authors rights or copyright.[77] Judicial practice in EU is similar and in the Allposters case it was decided that the defendant's transfer of the image from paper to the wooden panel, and the sale of such, would constitute the infringement. Such modification of the protected works would constitute a new reproduction of the work in the meaning of Art. 2 of the InfoSoc Directive.[78] In other words, the CJEU stated that author's exclusive distribution right won't be exhausted regarding the modified work even if the distribution of original copy has been exhausted. The CJEU also confirmed that if during the modification process a new copy has been reproduced and the original was completely destroyed, it still won't result in the exhaustion of the modified work.[79]

Under these rules, the acquirer of the damaged book can repair or even renew the copy in order to extend it to its original form and content and but can't resell it, even if copyrights holder's distribution right was exhausted upon transfer of original copy. However, the extent of the repairment or renewal will be judged on a case by case basis and it might lead to unauthorised actions or, if authorised, to derivative works.

5. Electronic books

As physical books took over the world with the invention of the printing press, electronic books did the same to the online world. With the whole world being connected through the internet and the fact that a book doesn't need to be merged with a tangible medium, it's impossible to decipher how big this market is.[80] Many advantages, such as availability, environmental

[77] https://www.law.cornell.edu/wex/derivative_work, accessed January 4, 2023
[78] Rosati, E., *supra* note 37, Pg. 677
[79] https://copyrightblog.kluweriplaw.com/2015/01/27/allposters-ecj-decision-no-exhaustion-of-rights-in-modifications-of-the-copyright-work/, accessed March 15, 2023
[80] Subba Rao, S., Electronic books: a review and evaluation, *Library Hi Tech, Vol.* 21, no. 1, 2003, Pp. 85 – 93, Pg. 86

friendliness, cost savings, and the ability to improve literacy and education have by now overridden the disadvantages that were the most prominent at the beginning of the emergence of electronic books.[81] One of the greatest advantages of electronic books is the ability to be produced for a low cost in many copies, which are the same as the original, by almost anyone. Accessibility has become one of the greatest launchers of electronic books, as well as the development of multi-compatible file forms. The definition of the electronic book describes it as "a book composed in or converted to digital format for display on a computer screen or handheld device".[82]

To protect the work, the copies which are published through an electronic book publisher are given "DRM encryption to lock the file and generate a unique encryption key" which is controlled by the distributor. The reader, by purchasing the electronic book, is given the Digital Rights Management key (hereafter: DRM) to access and read the file.[83] This also aims to solve the problem of the infringement of author's right encompassed in such work. If those involved in the online distribution don't take proper measures, the author could bear a huge loss.

Moreover, as a result of the recent pandemic and the move of education to online platforms, publishers are trying to keep up with digitalisation and provide content in the digital form. This has become extremely important in educational circles with the widespread availability of online courses.[84] The problem of the high cost of physical educational and non-educational books still exists, which leads customers to seek cheaper second-hand copies. This is applicable to either tangible or intangible forms and while the situation for physical second-hand books is clear, the same can't be said when it comes to the second-hand electronic books. [85]

[81] Subba Rao, S., *supra* note 80, Pp. 87 – 89
[82] https://www.merriam-webster.com/dictionary/e-book, accessed January 30, 2023
[83] Subba Rao, S., *supra* note 80, Pp. 90 – 91
[84] Bammel, J., *supra* note 4, Pp. 63 – 64
[85] *Ibid.*, Pp. 66 – 67

Since the act of acquiring the book through online means will include the reproduction and communication of the work[86], it's easy to cross the line into the infringement of protected rights. When it comes to newly published electronic books available to consumers from the original purchasing site, the act of acquiring the file will follow with the rules how and under which conditions can the acquirer use the said work.[87] These rules will be included in licence agreements, which the consumer will usually consent to abide by accepting the terms and conditions. Said rules can also come in the form of implied licence agreements. In the end, all cases will be regulated by national legislation.[88]

The rule today is that after the person acquires the electronic file of the book, they can't resell it as one could do with a physical copy. This has been challenged but courts still stand by the literal interpretation of the InfoSoc Directive prohibiting the exhaustion of the distribution right for intangible copies. Furthermore, digital work is usually purchased with an accompanying licence that describes the contractual obligations of the seller and the acquirer.[89] The fact that electronic books have become more accessible, the pirating of such is even easier and more extensive than before.

5.1. The "Problem" of Licence Agreements

Another issue that occurs is that under the existence of licence agreements, implied or not, rightsholders try to hold on to the exclusive rights of the protected work prohibiting its use, similarly as in the UsedSoft case. The CJEU ruled that such provisions are restricting while American courts differ on this topic.

[86] for more see Case C-160/15 GS Media BV v Sanoma Media Netherlands BV and Others, Judgment of the Court (Second Chamber) of 8 September 2016
[87] Bammel, J., *supra* note 4, Pp. 106 – 107
[88] *Ibid.*, Pg. 106
[89] *Ibid.*, Pp. 107 – 108

These contracts are known as contracts of adhesion in which "the terms and conditions of the contract are set by one party, and the other party is placed in a take-it-or-leave-it position with little or no ability to negotiate more favourable terms".[90] Three most common types of these agreements are shrink wrap, click-wrap and browse-wrap agreements. The shrink wrap agreement would be included in the packaging of the software fixed on a tangible medium and the party would consent to it simply by opening the package. The click-wrap agreement is the one where a person gives their consent by clicking on the "I agree" button on the webpage during an online purchase or transaction. For the browse-wrap agreements, it's enough for the party to perform a certain action, such as download, which presumes giving consent to the agreement.[91] These types of agreements are convenient because of low cost and quick execution but as a result, consumers are more reckless and ignorant when consenting to abide by them.[92] Furthermore, these agreements include provisions restricting the transfer of ownership to the acquirer. That way the copyright holder maintains control of the distribution of the copy even after the use of it is granted to the licensee and makes the first sale doctrine, or exhaustion principle, ineffective. In Vernor v Autodesk case, the USA District court ruled that the acquirer was merely a licensee, not an owner of the software that they obtained from the plaintiff based on the licence agreement that prohibited transfer. This case excluded the applicability of the first sale doctrine.[93] Consequently, in the United States v Wise case the court stated that if the licensee "...gets the right to keep the copy, then he also becomes and owner, therefore is a sale…" and as such the first sale doctrine can be

[90] Richardson, M. S., The Monopoly on Digital Distribution, *Pacific McGeorge Global Business & Development Law Journal*, *Vol.* 27, no. 1, 2014, Pp. 153-171, Pg. 158
[91] Richardson, M. S., *supra* note 90, Pp. 159 – 160
[92] *Ibid.*, Pp. 161 – 162
[93] *Ibid.*, Pp. 166 – 167

applied.[94] This issue should be examined on a case by case base as not all licence agreements are the same and their provisions allow different actions regarding the protected work.

Libraries are also trying to keep up with digitalisation and have thus started offering standard book lending services in an online form. Standard services used to include lending books to customers and allowing them to copy parts of the book in accordance with legal regulations.[95] Furthermore, Art. 6 of Rental and Lending Right Directive stipulates the public lending exception from the exclusive rental and lending right in respect of public lending with the condition that authors receive remuneration for such lending. In *Vereniging Openbare Bibliotheken v Stichting* case (hereafter: VOB v Stichting case) the library wanted to provide a lending service in a digital environment by putting electronic books on the server allowing the users to download the copy which would be available only to them individually.[96] One of the questions for the CJEU to discuss was if the e-lending was under the scope of the definition of lending as stated in the Rental and Lending Directive which has been answered as positive.[97]

The CJEU stated that a library may provide lending of the book through online service if the book was already put on the market "by a first sale or other transfer of ownership of that copy in the European Union by the holder of the right of distribution to the public or with his consent, for the purpose of Article 4(2) of Directive 2001/29".[98] According to the Rental and Lending Directive the authors and copyright holders have exclusive right to decide if they wish to allow

[94] Mammadli, A., *supra* note 22, Pp. 93 – 94
[95] Bammel, J., supra note 4, Pp. 92 – 93
[96] Mammadli, A., *supra* note 22, Pg. 89
[97] VOB v Stichting case, Par. 26, 54
[98] VOB v Stichting case, Par. 64, 65

libraries to lend out their work. However, this right might be bypassed if the member state enumerates the author for public lending.[99]

5.2. Tom Kabinet case from December 19, 2019

Company from Netherlands, Tom Kabinet, set up a "a virtual market for second-hand e-books" where a person could buy a second-hand ebook that was put on the market either by the official distributor or by individuals.[100] The company would put their own digital watermark on the acquired ebooks and request sellers to officially declare that they haven't kept a copy of the book.[101] Publishers brought an action against Tom Kabinet in front of the Dutch District court claiming the infringement of copyright. The claim was overruled by the District Court. The claimants appealed before the Appellate court which upheld the District Court's decision but decided to ask the CJEU for clarification on the meaning of Art. 4(1) of the InfoSoc Directive in the Case C-263/18 Nederlands Uitgeversverbond and Groep Algemene Uitgevers v Tom Kabinet Internet BV and Others, Judgment of the Court (Grand Chamber) of 19 December 2019 (hereafter: Tom Kabinet case). The question the Appellate Court asked the CJEU was the following: "is the distribution right with regard to the original or copies of a work as referred to in Article 4(2) of [Directive 2001/29] exhausted in the European Union, when the first sale or other transfer of that material, which includes the making available remotely by downloading, for use for an unlimited period, of e-books (being digital copies of books protected by copyright) at a price by means of which the copyright holder receives remuneration equivalent to the economic value of the work belonging to him, takes place in the European Union through the rightsholder or with his consent?".[102] The act of downloading the file from the internet is an act of communication and

[99] https://www.wipo.int/wipo_magazine/en/2018/03/article_0007.html accessed March 15, 2023
[100] Case C-263/18 Opinion of AG Szpunar, *supra* note 43, Par. 18
[101] *Ibid.*, Par. 18
[102] Tom Kabinet case, Par. 30

reproduction because another file is created, identical to the original one that's on the server. The person who downloads the file has an indefinite access to the file if no restrictions are put in place, and can easily share the file with others, which infringes the copyright holder's rights. This act doesn't constitute the exception under Art. 5 of the InfoSoc Directive for "transient or incidental reproductions" as after the act of downloading the file stays on the computer and it's not just a transient copy.[103]

The CJEU stated that the distribution right, as described in Art. 6(1) of the WCT, covers only tangible copies and not intangibles such as ebooks, which are covered by the right to communicate to the public.[104] Even though the CJEU ruled in the UsedSoft case that the distribution right is exhausted upon the resale of computer programs regardless of the form, in this case it is distinguishing the form of the resale of ebooks since they as "dematerialised digital copies, unlike books on a material medium, do not deteriorate with use, and used copies are therefore perfect substitutes for new copies". In addition, "exchanging such copies requires neither additional effort nor additional cost, so a parallel second-hand market would be likely to affect the interests of the copyright holders in obtaining an appropriate reward for their works much more than the market for second-hand tangible objects".[105] When it comes to the copies of physical work, with each reproduction the quality is worse and it's possible to tell them apart. For electronic copies of the book, the copy is identical to the original work which can then be copied unlimitedly.

Furthermore, the CJEU repeats the two criteria for communication to the public already set in the previous cases, "an act of communication of a work and the communication of that work to

[103] Case C-263/18 Opinion of AG Szpunar, *supra* note 43, Par. 49
[104] Tom Kabinet case, Par. 40, 43, 44
[105] *Ibid.*, Par. 53, 55, 58

a public".[106] The Court also states that there were no technical measures to ensure that only one copy of the work could be acquired during the time the acquirer has the access to the work and that after the time period expires, the said copy of the work can't be used by that user.[107] Unfortunately, the CJEU doesn't elaborate further on whether the practice of such measures could in this case impact the final decision. This issue raises the question whether the previously mentioned DRM could be adjusted for the purpose of sale of second-hand books in a digital environment to make it legally permissible.

As mentioned earlier in this paper, in the UsedSoft case, the CJEU discussed if acquiring a copy of the software by online download, "accompanied by a licence to use that program for an unlimited period", exhausted the distribution right. The CJEU stated that the download as described constitutes the transfer of ownership of that copy and it's in the scope of the distribution right in the meaning of Art. 4(2) of the InfoSoc Directive. It was taken into consideration that computer programs are governed by *lex specialis*, the Software Directive, and the online transfer of the copy of software functionally is the same as the transfer of a tangible copy.[108]

In the Tom Kabinet case, the final decision of the court was to include "the supply to the public by downloading, of permanent use…" under the "…communication to the public, 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 Art. 3 (1) of the InfoSoc Directive.[109] Tom Kabinet's argument that an ebook is a program wasn't valid as the ebook is protected by copyright due to its content and literary value while a

[106] Tom Kabinet case, Par. 61 – 63
[107] *Ibid.*, Par. 68,
[108] Case C-263/18 Opinion of AG Szpunar, *supra* note 43, Par. 53-55
[109] Tom Kabinet case, Par. 74

program is a set of rules intended to be read and run by a machine.[110] Moreover, with works like books, the acquirer would usually be prepared to dispose of the single copy after reading it while programs are used in longer terms and not so likely to be put on the market as second hand goods.[111]

5.2.1. Communication to the Public

In the Tom Kabinet case, the CJEU stated that the transfer of electronic books is in the scope of communication to the public which can't be exhausted as stated in Art. 3 (3) of the InfoSoc Directive. The InfoSoc Directive took over the definition of the said right from the WCT and describes it as "authors of literary and artistic works shall enjoy the exclusive right of authorizing 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 these works from a place and at a time individually chosen by them".[112]

Communication to the public involves "the act of making available to the public"[113] and "the concept of public". It includes various types of communicating the work to the public through wire or wireless mode, differently than how the first communication was conducted, but not including the act of distribution. Advocate General Szpunar in his opinion on the Tom Kabinet case differentiates the forms of communication to the public. One of the forms is "representation of the work open to the participation of the public" where a copyright holder decides the time and place of communication, e.g. theatre play, and the presence of the public is necessary for

[110] Case C-263/18 Opinion of AG Szpunar, *supra* note 43, Par. 67
[111] *Ibid.*, Par. 61, 62
[112] Art. 8 of the InfoSoc Directive
[113] For more on "act of communicating to the public" see C-403/08 and C-429/08 Football Association Premier League and Others [2011] ECR I-9083, Par. 193

communication to happen. In the modern world, this would be communication through broadcasting services where the presence of the public is still needed for communication, but it's not required for the public to be physically in the same place at the same time. In this case, the copyright holder decides whether the work will be available to the public and usually has a right to remuneration for the access.[114] Another form of communication that General Advocate describes "is an acquisition by members of the public, on a permanent or temporary basis, of the originals or copies of the works" for e.g. literary, musical or audio mediums.[115] This is related to works that are distributed in multiple copies where each copy can be resold as "second-hand". This is the situation where the exhaustion principle is applied and the copyright holder can no longer control the distribution of each copy after the first transfer of ownership. As mentioned, for now, this is only allowed for tangible copies and software.

Alongside the mentioned, it's important to define the concept of public as well. The public is "indeterminate number of potential recipients and implies, moreover, a fairly large number of persons" as stated in ITV Broadcasting Ltd and Others v TVCatchUp Ltd. Case.[116] It's not of relevance if all people accessed the work at the same time, but the fact that they had access. However, Advocate General states that the number of people the communication is directed to, shouldn't be a deciding factor but "the fact that the person at the origin of that communication addresses his offer to persons not belonging to his private circle" and in the case of downloading

[114] Case C-263/18 Opinion of AG Szpunar, *supra* note 43, Par. 26 – 28
[115] *Ibid.*, Par. 29 – 30
[116] Case C-607/11 ITV Broadcasting Ltd and Others v TVCatchUp Ltd, Judgment of the Court (Fourth Chamber), 7 March 2013, Par. 31; for more on the concept of "public" see Case C-89/04 Mediakabel [2005] ECR I-4891, Par. 30, and Case C-192/04 Lagardère Active Broadcast [2005] ECR I-7199, Par. 31

a file where access is subject to acquisition of the file, even an individual may be considered as public.[117]

5.3. Digital Market & Amazon e-books

Free movement of goods is fundamental for the European Single Market free and it's tried to be granted to digital goods in the Digital Market as well. In the context of literary works this is significant for the transfer of knowledge. The Amazon shop has managed to create a digital market for electronic books with implemented rules that customers oblige to abide by. The online shop is set up in a way that an electronic book can be purchased by a person, one copy per account, which is synced with the devices on which the said account is existent.[118] The copies of the books aren't possible to transfer manually to other tangible mediums or to share with other people. The special service called Whispercast allows the customers to purchase multiple copies and to distribute them between different service accounts. The online service allows the customers lending of ebooks in the way that the file becomes inaccessible to the purchaser for the time period the ebook is being lent. Because of this, the technical transfer that occurs isn't considered as reproduction as the file is unavailable on the primary account. Besides the described Amazon model, another possibility to protect the work from unauthorised manipulation is by using DRM to restrict certain use of the work.[119] In the UsedSoft case, the CJEU separated the notion of acquiring the copy of the work and licence to use it. As exhaustion of the distribution right occurs only in relation of the certain copy of the work, DRM and licenses could be modified for the second market for electronic books.

[117] Case C-263/18 Opinion of AG Szpunar, *supra* note 43, Par. 42
[118] Oprysk, L, et al., Development of a Secondary Market for E-Books: The Case of Amazon, *Journal of Intellectual Property, Information Technology and Electronic Commerce Law*, *vol*. 8, no. 2, 2017, Pp. 128 – 138, Pg. 131
[119] *Ibid.*, Pg. 132

Furthermore, for the exhaustion there needs to be transfer of ownership of the said copy but that wouldn't imply that the author's rights embodied in the protected work are sold as well.[120]

The Amazon's market of electronic books is a good example of how it's possible to set up a market in a digital environment for the sale of intangible goods while keeping the author's rights safe. With the implementation of DRM and other measures that Amazon uses, it would be possible to set up a market for second-hand electronic books. To make this possible, one needs to track where the first sale was made, as exhaustion is a territorial principle, and the line of transfer of the ownership.[121] As stated in the Tom Kabinet case, there would need to be a mechanism that ensures the deletion of the copy from the original purchaser's device upon the transfer to the acquirer.[122] Amazon has tried to set up a similar market for second hand digital objects in 2013 where a person could store the work obtained from the primary market "in a secure personalized data store". The transfer of these goods happens by transferring the copy from one personalized data store to another while obeying certain rules, such as limited transfer, paying a fee for the movement, etc.[123] This is known as "digital degradation" and it would ensure the differentiation of the original and second-hand copy of the protected work, which was one of the arguments of the CJEU for not including electronic books into the exhaustion principle.[124]

As already mentioned, publishers or e-retailers claim that electronic books are licenced through licence agreements rather than sold and hinder the exhaustion of the distribution right. *De facto* they keep the exclusive right to control the further distribution of the certain copy after it's been transferred to the purchaser.

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[120] Oprysk, L, et al., *supra* note 118, Pp. 133 – 134
[121] *Ibid.*, Pg. 134
[122] Tom Kabinet case, Par. 69
[123] Oprysk, L, et al., *supra* note 118, Pg. 136
[124] Soma, J. T., Kugler, M. K., *supra* note 24, Pg. 457

6. Distribution Right in the Croatian Legal System

After analysing the exhaustion principle for tangibles and intangibles through European and American legislative systems and judicial practise, below is short summary of this principle through Croatian legal system. As Croatia is a part of European Union since 2013, one of the conditions of accession was to align Croatian legislation with the legislation of the EU. That included acceptance of the principle of community exhaustion instead of national exhaustion that was applicable at the time. The principle of the national exhaustion, that was applied before accession to the EU, prohibited the rightsholder who put the protected work for the first time to the Croatian market to further control distribution of that work inside the borders. That was also applicable in case the protected work was put for the first time to the market with rightsholder's consent.[125] In other words, rightsholder can prohibit import of protected work to internal market that applies national exhaustion principle, if the work has been put to the external market for the first time by the rightsholder or with his consent.[126] The internal EU market and European Economic Area have been set up in the way to enable the free movement of goods, people, services and capital. When it comes to the authors and related rights, the principle of national exhaustion was too restricting and CJEU confirmed the community exhaustion through cases of *Consten and Grunding* and *Deutsche Gramaphon.*[127] By the community exhaustion, distribution right is exhausted in whole European Economic Area upon first release of the work into the market of any member state.[128]

[125] Matanovac, R., *Proturječje između prava intelektualnog vlasništva i slobode kretanja roba, pružanja usluga i tržišnog natjecanja na unutarnjem tržištu Europske unije, razvoj načela unijskog iscrpljenja prava te prilagodba hrvatskog prava europskom*, u: Matanovac, R. (ur.), *Prilagodba hrvatskog prava intelektualnog vlasništva europskom pravu*, Zagreb, 2007, Narodne Novine, Državni zavod za intelektualno vlasništvo, Pp. 21 – 49, Pg. 33
[126] *Ibid.*, Pg. 46
[127] *Ibid.*, Pp. 35 – 36
[128] *Ibid.*, Pp. 44 – 45

During the transition period before official accession on 1st July 2013, Croatian legal system contained double regime for the exhaustion principle. Until the 1st July 2013, the national exhaustion principle as explained above was applied, and after the mentioned date the provisions prescribing the community exhaustion have been put into effect.[129]

Currently, community exhaustion principle is included in the Art. 34 (4) ZASP "with first sale or other transfer of ownership of original or the copy of author's work on the territory of Member State with the consent of the author, distribution right is exhausted in regard to that specific copy in the territory of Republic of Croatia". The exhaustion of the distribution right "doesn't stop the rental right, the right of author to authorize or prohibit import or export of originals or copies of protected work to the third country, as well as right to renumeration for public lending". Further in Art. 34 (5) of ZASP it's stated that exhaustion of the distribution right in regards of collections and author's data base is applicable only in case of reselling. Moreover, Art. 35 of ZASP states explicitly how the exhaustion of the distribution right doesn't apply in the cases of artist's resale right. Those would be situations where the original piece of visual art is being resold by people who are dealing with art trades professionally, e.g. auctions, art galleries etc. But, there's exception of this rule per Art. 35 (2) of ZASP where the exhaustion won't happen if the reseller is art gallery which had obtained the art piece directly from the author in the time period of 3 years before the reselling and if the price of the reselling piece isn't higher than 10.000,00 euros.

Besides the above mentioned ZASP, other legal acts that include the exhaustion principle in Croatia are Patent's Act[130] (Art. 102), Trademark Act (Art. 17)[131], Industrial Design Act (Art.

[129] Matanovac, R., *supra* note 125, Pp. 47 – 48
[130] Zakon o patentu ("Narodne novine" br. 16/20.)
[131] Zakon o žigu ("Narodne novine" br. 14/19.)

20)[132] and Act on the Protection of Topographies of Semiconductor Products (Art. 20)[133] in similar wording as Art. 34 (4) of ZASP.[134]

7. Conclusion

Even though exhaustion of the distribution right ensures protection of the market from monopolistic behaviour of rightsholders, it's still not fully implemented in the case of electronic files and digital market. As mentioned, digital files can be copied multiple times with no harm to the original as they're completely identical and it's difficult to decipher if the file originates from the rightsholder or infringer. Moreover, the act of making copies constitutes the reproduction of the said work which is an infringing act in itself in certain cases and the reproduction right can't be exhausted. There's also a problem of licence agreements that mostly don't transfer ownership of the copy, only certain uses of the work.[135]

Regardless of the mentioned issues, the legal world can't ignore the advancement and widespread use of digital works and the possible expansion of second-hand digital markets. One of the functions of the exhaustion rules is to ensure the fair treatment of different interests and to support the development of the market. Even though second-hand markets include lower prices, they're still profitable for the rightsholders by making their work more accessible to a wider population and as such can contribute to their profit on the primary market as well.[136] The cases mentioned in this paper show some of the principles the courts have set up for the service providers to follow in order to set up the market of second-hand digital goods in the future. The problem of

[132] Zakon o industrijskom dizajnu ("Narodne novine" br. 173/03., 54/05., 76/07., 30/09., 49/11., 46/18.)
[133] Zakon o zaštiti topografija poluvodičkih proizvoda ("Narodne novine" br. 173/03., 76/07., 30/09., 49/11., 46/18.)
[134] Matanovac, R., *supra* note 125, Pg. 47
[135] Mammadli, A., *supra* note 22, Pp. 94 – 95
[136] *Ibid.*, Pp. 95 – 96

digital copies being identified as the original could be solved by “digital degradation”, DRMs and other similar techniques.

Currently, if a person wishes to purchase an electronic book for an unlimited or undetermined period of time and pays a certain price for it, it would be considered to be a sale not a licence. Accordingly, they would become the owner of the said copy and if the mechanisms ensuring that there’s only one copy of the protected work at all time were in place, they could resell this copy as second-hand digital good.[137] Unfortunately, this scenario isn’t legally possible yet. Since it's been a few years from the Tom Kabinet case, it’s possible that there’s a company who is already conducting this kind of business but that hasn't been presented in front of the courts to elaborate this topic in more depth.

[137] Richardson, M. S., *supra* note 90, Pp. 168 – 169

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