

Exhaustion online with regard to database in the eu



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Before explaining exhaustion online with regard to database in the European Union, we should first start by explaining what exhaustion in an Intellectual Property context is.

1. a) Definition

The exhaustion of intellectual property rights is one of the limits of Intellectual Property (IP) Law. After a product has been sold under the authorization of the IP owner, the reselling, rental, lending and other third party commercial uses of IP-protected goods in domestic and international markets is protected by the principle. Once a product is covered by an IP right, such as by a patent right, has been sold by the Intellectual Property right owner or by others with the consent of the owner, the Intellectual Property right is said to be exhausted. It can no longer be exercised by the owner. This limitation is also referred to as the Exhaustion Doctrine or First Sale Doctrine. For example, if an inventor obtains a patent on a new kind of umbrella, the inventor (or anyone else to whom he sells his patent) can legally prohibit other companies from making and selling this kind of umbrella, but cannot prohibit customers who have bought this umbrella from the patent owner from reselling the umbrella to third parties. There is a fairly broad consensus throughout the world that this applies at least within the context of the domestic market. This is the concept of National Exhaustion. However, there is less consensus as to what extent the sale of an Intellectual Property protected product abroad can exhaust the IP rights over

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this product in the context of domestic law. This is the concept of Regional exhaustion or International Exhaustion. The rules and legal implications of the exhaustion largely differ depending on the country of importation, i. e. the national jurisdiction.

The paternity of the exhaustion theory is ascribed to the German jurist Joseph Kohler.² The word ‘exhaustion’ seems, however, to have been first used by the German Reichsgericht in a number of judgments in the early years of the twentieth century. In a judgment of 26 March 1902 the Reichsgericht held, for example, that the effect of the protection conferred by a patent (i. e. the exclusive right to manufacture products covered with regard to Database in the European Union by the patent and to put them on the market) was exhausted by the first sale.³ In other words, once the patent holder had transferred legal ownership of goods made in accordance with the patent, by selling them to another person, he lost the power to control the further destiny of those goods subsequently.

1. b) Exhaustion in the European Union

The European Court of Justice (ECJ) has taken serious steps to harmonize the rules of a Community-wide/regional exhaustion doctrine in the field of copyright law since the 1970’s. Schovsbo called the harmonization by the ECJ as “ 1.-phase” development of exhaustion or negative harmonization, and the creation of directives by the competent bodies of the EEC (and later the EU) as “ 2.-phase” development or positive harmonization.

The first-ever decision on the exhaustion of distribution rights was handed over in the famous Deutsche Grammophon case. Here, the ECJ based its <https://assignbuster.com/exhaustion-online-with-regard-to-database-in-the-eu/>

decision on different objectives of the EEC Treaty: the prohibition of partitioning of the market, free movement of goods, as well as the prohibition of distortions of competition in the common market.

The European Court of Justice highlighted that prohibitions and restrictions on trade might be applied by Member States, also in cases of copyright law, if they do not constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States⁶. Based upon these, the European Court of Justice concluded that “[i]f a right related to copyright is relied upon to prevent the marketing in a Member State of products distributed by the holder of the right or with his consent on the territory of another Member State on the sole ground that such distribution did not take place on the national territory, such a prohibition, which would legitimize the isolation of national markets, would be repugnant to the essential purpose of the Treaty, which is to unite national markets into a single market. That purpose could not be attained if, under the various legal systems of the Member States, nationals of those States were able to partition the market and bring about arbitrary discrimination or disguised restrictions on trade between Member States. Consequently, it would be in conflict with the provisions prescribing the free movement of products within the common market for a manufacturer of sound recordings

to exercise the exclusive right to distribute the protected articles, conferred upon him by the legislation of a Member State, in such a way as to prohibit the sale in that State of products placed on the market by him or with his consent in another Member State solely because such distribution did not occur within the territory of the first Member State.” ⁷ In the EU, the <https://assignbuster.com/exhaustion-online-with-regard-to-database-in-the-eu/>

principle of exhaustion of IP rights is as follows. The holder of an Intellectual Property right loses his absolute right with the first sale in the EU territory. In other words, the first commercialization of a good in a territory of the European Union made by the holder of an industrial property right, or by a legitimate licensee, has as a consequence that that good may freely circulate in Europe, and the legitimate IP holder may not oppose the successive acts of reselling. Using the wording of the Centrafarm Case:

“ It cannot be reconciled with the principles of free movement of goods under the provisions of the Treaty of Rome if a patentee exercises his rights under the legal provisions of one Member State to prevent marketing of a patented product in said State when the patented product has been brought into circulation in another Member State by the patentee or with his consent”

Again, this is a good example of the function of the law as a system to solve conflicts: on one side the traditional principle of territoriality of IP rights; on the other side the aspiration to a common market in favour of international trade. The aim of the exhaustion theory is to strike a balance between the free movement of goods on the one hand, and the proprietor's exercise of exclusive intellectual property rights to distribute his goods on the other hand. The holder of an IP right holds therefore

the right to choose where, under which conditions and at which price his goods are put on the market for the first time. No need to say that international exhaustion allows parallel imports. The theory of exhaustion obviously improved in the course of time. In order to be applicable, various conditions have to be met. It requires the consent of the legitimate holder

(consent that may be express or implied). And it also requires that the legitimate holder receives, with the first sale, a “reasonable” remuneration. Depending on the jurisdiction concerned, one often distinguishes between national exhaustion and international exhaustion. In the European Union the term “regional exhaustion” is frequently used. Regional exhaustion, in the EU member States, means that IP rights are considered exhausted for the territory of the EEA when the product has been put on the market in any of the EEA Member States.

Once the principle of exhaustion was established, the EU Law incorporated it in regulations, directives and conventions. For example, art. 7 n. 1 of the First Council Directive of 21 December 1988 to approximate the laws of the Member States relating to trade marks (89/104/EEC states that “The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent” 9. Art. 13 of the Council regulation (EC) n. 207/2009 of 26 February 2009 on the Community trade mark states that “A Community trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent” 10.

The Information Society Directive (Directive 2001/29/EC) on the harmonization of certain aspects of copyright and related rights in the information society refers to this principle in paragraph 28 and 29. The Directive is a little old in relation to the high speed of technology, but is still there. 11

1. c) The principle of exhaustion in EU Case Law

In Germany, the German Supreme Court (BGH) has repeatedly acknowledged the exhaustion principle as a precautionary principle for the entire IP law (BGH, 22 January 1964, Maja Case; BGH, 10 April 1997, Sermion II Case).

In France a large number of decisions were reported to deal with the exhaustion principle (Commercial Chamber of the Court of Cassation, 9 April 2002 n° 99/15428,

Cass. Com., 20 February 2007, n° 05/11088; Cass. Com., 26 February 2008, n° 05/19087;

Cass. Com., 7 April 2009, n° 08/13378; CA Paris, 15 June 2011, n° 2009/12305).

In Austria the principle of exhaustion within the EU was applied even before it was explicitly mentioned in the Austrian Trade Mark Act (Austrian Supreme Court October 15, 1996).

9 89/104/EEC First Council Directive of 21 December 1988 to approximate the laws of the Member States relating to trade marks

10 COUNCIL REGULATION (EC) No 207/2009

11 Directive 2001/29/EC

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2- DATABASE

The protection of electronic databases was first considered by the EC Commission in the 1996 Green Paper. An initial proposal was adopted on January 29, 1996, and was greeted, at least in the United Kingdom (which has the largest database industry in the Community) by a considerable degree of opposition, due to the perceived reduction in protection for many factual and numerical databases. 12

Regarding the concept of database, we should say that it is a collection of independent works, data or other materials arranged in a systematic or methodical way and individually accessible by electronic or other means which can include literary, artistic, musical or other collections of works or collections of other material such as texts, sound, images, numbers, facts.

13 Databases in the European Union are regulated through

Directive 96/9/EC, also known as the Database Directive. It is an European Union Directive in the field of Intellectual Property Law, made under the internal market provisions of the Treaty of Rome. It harmonizes the treatment of databases under copyright law and the sui generis right for the creators of databases which do not qualify for copyright.

The exhaustion principle does not allow the reproduction of data. The German Supreme Court has confirmed this: it held that if there is extraction of a substantial part of the database, there is no exhaustion as exhaustion covers the right of distribution and not extraction. 14 Online electronic databases cannot benefit from the exhaustion principle. The database must have been sold. If it is given free of charge, the principle of exhaustion

does not apply. The CJEU held this to be so in the field of trademarks in *Peak Holding v Axolin-Elinor* and later confirmed it in *L’Oreal v eBay*.¹⁵ There is no reason why these decisions would not apply here by analogy as the term used in Article 7(2)(b) is ‘sale’. The same applies to Article 5(c) in the copyright chapter of the Database Directive.

Article 7 furthermore specifies acts of temporary or ephemeral copying as extraction.¹¹² In contrast to the initial draft, which required a commercial intention,

12 E. C. Intellectual Property Materials, Sweet & Maxwell’s, 1994, 1 (F) Amended Proposals of 4 October 1993 for a Council Directive on the legal protection of databases (COM (93) 464 final – SYN 393) [1993] O. J. C308/1, p. 36

13 Article 7(1) DDir (96/9/EC)

14 Marktstudien (Market Surveys), 21 April 2005, Case I ZR 1/02[2005] GRUR 940; [2006] IIC 489

15 Case C-16/03 *Peak Holding v Axolin-Elinor* [2004] ECR I-11313 and Case C-324/09 *L’Oreal v eBay* [2011]

ETMR 52

Exhaustion Online with regard to Database in the European Union consent is required for loading a database into a computer RAM, as this will copy the entire database. The consequences of prohibiting acts of temporary or even ephemeral copies — such as caching — is an inconsistency between online

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and offline databases. Whereas an offline database — such as a CD-ROM — or a smaller database technically requires RAM storage of a substantial part, accessing a large online database normally merely requires the copy of the entries accessed to be copied. 16

Exhaustion only applies to databases in tangible format. If someone lawfully acquired a tangible copy of the databases, the right holder will not be able to control its resale within the European Union. However, in two cases, there will arguably not be exhaustion. The reason is the use of the narrow word ‘ sale’ and ‘ resale’. First, there will not be exhaustion when the right holder gave rather than sold the database. In this case, the right to control distribution remains. Thus, the sale of a copy of a database distributed freely by the maker, may infringe. 17 The second case is when the purchaser wishes to give the database instead of reselling it. It seems that, in that case, the gift of the database by the person who acquired it can also be controlled by the right holder.

It must be noted that, in a recent case, 18the Versailles Court of Appeal surprisingly held that, for a database producer to benefit from her rights of extraction and reutilization, she must have asserted it previously, before any infringement act is committed. The mention of the interdiction to extract or reutilize contents from the database becomes a condition of opposability of the sui generis right granted to the database maker by Article L. 342-2 of the IPC. The claimant lost her case since she did not make such mention on the website she created. This decision seems to add a condition which does not exist in the Directive. The sui generis right is not dependant on any formality.

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Two German courts held that the creation of deep links is not an infringement of the sui generis right¹⁹. This is not surprising since it is difficult to see how a deep link is an act of extraction or reutilization.

Under Article 3, databases which, “ by reason of the selection or arrangement of their contents, constitute the author’s own intellectual creation” are protected by copyright ¹⁶ Guido Westkamp, Protecting databases under US and European law – methodical approaches to the protection of investments between unfair competition and intellectual property concepts, 2003

¹⁷ Bently & Sherman 2004, p. 303

¹⁸ Rojo R. v Guy R., CA Versailles, 18 November 2004, available on <http://www.legalis.net>.

¹⁹ SV on line GmbH v Net-Clipping, OLG Munich, 9 November, 2000 [2001] ZUM 255; Handelsblatt v Paperboy,

OLG Cologne, 27 October 2000 [2001] ZUM 414; BGH, 17 July 2003 [2003] Cri.

as collections: no other criterion may be used by Member States. This may be a relaxation of the criterion for protection of collections in the Berne Convention for the Protection of Literary and Artistic Works,^[2] which covers collections “ of literary and artistic works” and requires creativity in the “ selection and arrangement” of the contents: in practice the difference is likely to be slight. Any copyright in the database is separate from and without prejudice to the copyright in the entries.

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Copyright protection is not available for databases which aim to be “complete”, that is where the entries are selected by objective criteria: these are covered by sui generis database rights. While copyright protects the creativity of an author, database rights specifically protect the “qualitatively and/or quantitatively [a] substantial investment in either the obtaining, verification or presentation of the contents”: if there has not been substantial investment (which need not be financial), the database will not be protected [Art. 7(1)]. Database rights are held in the first instance by the person or corporation which made the substantial investment, so long as: the person is a national or domiciliary of a Member State or the corporation is formed according to the laws of a Member State and has its registered office or principal place of business within the European Union.

The holder of database rights may prohibit the extraction and/or re-utilization of the whole or of a substantial part of the contents: the “substantial part” is evaluated qualitatively and/or quantitatively and reutilization is subject to the exhaustion of rights.

Public lending is not an act of extraction or re-utilization. The lawful user of a database which is available to the public may freely extract and/or re-use insubstantial parts of the database (Art. 8): the holder of database rights may not place restrictions of the purpose to which the insubstantial parts are used. However, users may not “perform acts which conflict with normal exploitation of the database or unreasonably prejudice the legitimate interests of the maker of the database”, nor prejudice any copyright in the entries. The same limitations may be provided to database rights as to copyright in databases (Art. 9): extraction for private purposes of <https://assignbuster.com/exhaustion-online-with-regard-to-database-in-the-eu/>

the contents of a non-electronic database; extraction for the purposes of illustration for teaching or scientific research, as long as the source is indicated and to the extent justified by the non-commercial purpose to be achieved; extraction and/or re-utilization for the purposes of public security or an administrative or judicial procedure.

Database rights last for fifteen years from the end of the year that the database was made available to the public, or from the end of the year of completion for private databases (Art. 10). Any substantial change which could be considered to be a substantial new investment will lead to a new term of database rights, which could, in principle, be perpetual. Database rights are independent of any copyright in the database, and the two could, in principle, be held by different people (especially in jurisdictions which prohibit the corporate ownership of copyright): as such, database rights can be compared to the rights of phonogram and film producers. 20

3- CONCLUSION

The idea of digital first sale doctrine imploded into the mainstream copyright discussion only a few years ago, although it has already been discussed for almost two decades. The problem was reflected by academia, case law and legislature as well. Although notable sources take the view that the concept of digital exhaustion deserves support, the majority of commentators refused to accept this idea. Likewise, legislative proposals that were submitted to the German Bundestag and the Congress of the United States, were ultimately refused by the relevant national parliaments (or were not even discussed by them).

Under the traditional, positivist vision of copyright law, any similar ideas are condemned to death at the moment, especially in the light of the WCT Agreed Statement. Similarly, the CJEU's constructive interpretation of the international and regional copyright norms led to flawed argumentation. However, significant economic, social and technological arguments support the view that it is time to reconsider at international legislative level.

It looks like it is time to adapt the principle of exhaustion on an online perspective. Technology goes faster than law, so when the law goes a step forward, a new problem arises. Streaming and cloud computing are good examples. The majority of Reports acknowledge the problems, and underline various aspects. The first is that the principle of exhaustion of intellectual property rights was elaborated and developed in a time when goods and services were mainly material and sold and distributed through material and traditional channels. This approach is overturned by the new technologies. The second is that it is no longer possible to distinguish, as far as the principle of exhaustion is concerned, but also in general, among industrial property and intellectual property.

Copyright is expanding. The third is that it is more and more difficult to separate and distinguish traditional industry and online industry as well as material and immaterial goods

20 Intellectual Property Law, Trevor Cook, 2010

Exhaustion Online with regard to Database in the European Union and services. The majority of the Reports are of the opinion that on-line

infringement of intellectual property rights is normally dealt with the
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ordinary rules of civil procedure, and that there is no particular necessity of elaborating new ones. The difficulties of enforcing decisions abroad against foreign on line infringers in copyright cases are the usual ones, common in the legal praxis when a decision must be enforced against foreign infringers.

21 Dennis S. Karjala's thoughts serve as a great point to finish with. He stressed that " either we believe in the first-sale doctrine in the digital age or we do not. If we no longer believe in it, we should discard it openly and not through verbal gymnastics interpreting the definition of ' copy' for the purposes of the statute's reproduction right. Nor should our definition of ' copy' force systems engineers into unduly intricate or artificial designs simply to protect the right of the owner of a copy of a music file to transfer that file, provided that no copies derived from the transferred file are retained." 22

21 To what extent does the principle of exhaustion of IP rights apply to the on-line industry? Avv. Prof.

Vincenzo Franceschelli, 2014.

22 Dennis S. Karjala: " Copying" and " Piracy" in the Digital Age, Washburn Law Journal, 2013: p. 255.

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3 Guajakol-Karbonat RGZ 51, 139.

4 Intellectual Property Rights in EU Law Volume 1, David T. Keeling, p. 75-76

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Compare to Article 36 of the EEC Treaty.

On the application of Article 36 of the EEC Treaty see: Nial Fennelly: Rules and Exceptions: Freedom of Movement

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7 Case 78/70, *supra* note 64, p. 500., para. 12-13.

8 verbatim *Centrafarm B. V. and Adriaan de Peijper v. Sterling Drug Inc.*, in 6 IIC 102 (1975).

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