Question Q240

National Group: France

Title: **Exhaustion issues in copyright law**

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I. CURRENT LAW AND PRACTICE

Right of distribution

1) **Does the copyright law of your country recognise the right of distribution within the meaning of Article 6, paragraph (1) of the WIPO Copyright Treaty (WCT)? If so, please cite the provisions which set forth the definition of the right of distribution and recognise such right.**

The French Intellectual Property Code ("IPC") does not expressly refer to the right of distribution. France has chosen not to implement the provisions of the various European directives which provide for the right of distribution (Article 4(c) of Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs, Article 5(c) of Directive 96/9/EC of 11 March 1996 on the legal protection of databases, and Article 4 of Directive 2001/29/EC of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society). According to legislative history and French case law, this absence of implementation is justified by the fact that the right of distribution has already been implicitly recognised under French law by Article L122-1 of the IPC, pursuant to which "*The author's right of exploitation shall comprise the right of performance and the right of reproduction*". Indeed, in accordance with the doctrinal theory of the “right of destination”, whereby the author may control not only the terms of marketing of copies of his work, but also some uses of said work by the purchasers or holders thereof, the right of reproduction includes the right of distribution, namely the right to offer for sale.

Thus, French law does not expressly recognise the right of distribution as defined in Article 6, paragraph (1) WCT.

Infringement of the right of distribution has however been implicitly recognised by French courts, under various qualifications, as an act of infringement, although it is not something explicitly provided for by statute (Supreme Court. Crim. Division, 2 December 1964; Supreme Court, Crim. Division, 20 October 1977; Supreme Cout, Crim. Division, 16 December 2003; Paris Court of Appeals, 13 October 2004, RG No 04/03625).

Exhaustion of copyright-protected works

2) Does the copyright law of your country recognise the exhaustion of copyright-protected works after the first sale of the work with the authorisation of the author? Is it recognised by statutory law or case law?

The IPC contains four provisions relating to exhaustion of copyright on a copy of a work after the first sale thereof within the European Economic Area.

As regards copyright in general, Article L. 122-3-1 of the IPC, which implements Directive 2001/29/EC of 22 May 2001 into French law, provides that: "*Once the first sale of one or more tangible copies of a work has been authorised by the author or the successors thereof within the territory of a European Community Member State or a State party to the Agreement on the European Economic Area, the sale of these copies of said work may not be prohibited in European Community Member States or States party to the Agreement on the European Economic Area*".

As regards computer programs, Article L122-6 of the IPC provides that: *"(...) the right of exploitation belonging to the author of a computer program includes the right to do or to authorise: (...) 3. the placing on the market, in return for payment or free of charge, including the rental, of one or more copies of a computer program, by any means. However, the first sale of a copy of a computer program, within the territory of a European Community Member State or a State party to the Agreement on the European Economic Area, by the author or with the latter's consent, exhausts the right to place said copy on the market in all Member States, with the exception of the right to authorise subsequent rental of a copy*".

The IPC contains similar provisions for related rights (Article L.211-6 IPC) as well as for the *sui generis* right of databases producers (Article L342-4 IPC).

Even though France has not expressly recognised the right of distribution of authors or the so-called right of making available of related rights holders, it has implemented the European Union (EU) rule of exhaustion into French legislation, albeit limiting exhaustion to the first sale of a tangible copy or copies of a work in the European Union, whereas EU provisions refer to distribution "by sale or otherwise" of copies of a work, said right being exhausted in the event of a "first sale or other transfer of ownership".

3) How does your law treat exhaustion of copyright-protected works? Specifically:

a. Does exhaustion of rights occur for all kinds of works or is exhaustion limited to certain kinds of works?

Exhaustion of rights concerns all works protected by French copyright that may be fixed on a tangible medium, it being specified that the IPC contains specific provisions for computer programs (Article L122-6(3) IPC) and databases (Article L342-4 IPC).

b. Which right can be exhausted? Is it (a) the right of distribution, and/or (b) the right of reproduction, and/or (c) the right of lending and/or renting of copies?

The only right that can be exhausted is the right of distribution, as implied by Article L122-3-1 IPC, which refers to the first sale of a tangible copy of a work. As regards computer programs, Article L122-6 IPC expressly provides that exhaustion of rights does not include "*the right to authorise subsequent rental of a copy*".

The courts have expressly refused to extend the rule of exhaustion to the author's other prerogatives. For example, the Paris First Instance Court ruled that "*the application of said principle to the right of distribution does not deprive authors of their other rights, in particular the right of reproduction*" (Paris First Instance Court, 30 June 2009, No. 09/17634).

In particular, exhaustion is not applicable to moral rights. In this regard, a recent Supreme Court decision, which ruled that the right of disclosure (the right of the author to choose whether to disclose his work to the public) "*is exhausted upon first use by the author*" (French Supreme Court, 11 December 2013, No 11-22031 and No 11-22522), could lead to confusion, but the Court was simply making the point that, by nature, the moral right of disclosure is extinguished upon first use thereof by the author.

Lastly, the French group has deliberately not included in its analysis the provisions relating to the statutory licence resulting from the publication of phonograms (L214-1 *et seq.* IPC), library book loans (Article L133-1 IPC) and exceptions to copyright (L122-5 IPC), which also restrict the economic rights of the author, but are not related to the theory of exhaustion.

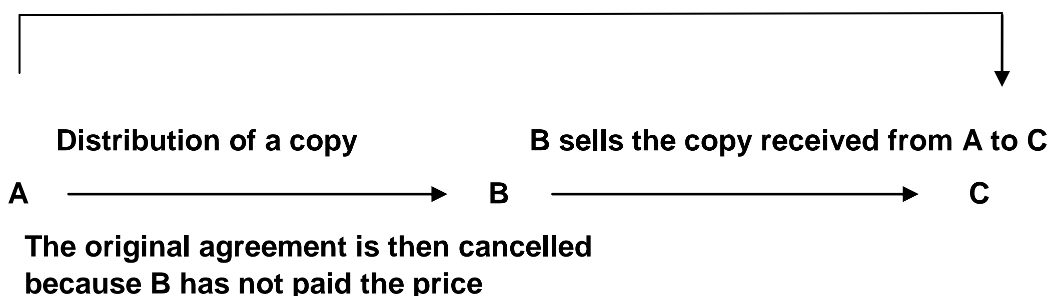
c. What are the requirements for exhaustion of rights to occur? What activities by rightholders are required for exhaustion to apply? Are licencees/buyers required to take any positive steps for exhaustion to be applicable?

In principle, the following conditions must be met:

- there must be a tangible copy (except in the case of computer programs, see Question 7);
- a first sale must have taken place within the European Economic Area (EEA); and
- the sale must be made by the author/rightholder or with the latter's consent.

Thus, for exhaustion to be applicable, there must be a first sale by the rightholder or with the latter's consent, which excludes any type of contract affecting ownership (rental, donation, distribution of promotional items). No particular steps need to be taken by the purchaser of the tangible copy.

d. **If the rightholder A distributes lawful copies made by A to people including B, B purchases a copy from A and sells it to C, and thereafter A cancels the sale agreement between A and B because of non-payment of the price by B to A, may A assert his/her copyright against C? May C rely on exhaustion of A´s rights to the work (or the right of distribution)? In this connection, which party (A or C) will keep the right of ownership in the tangible copy?**



The proposed situation consists of a chain of two contracts transferring ownership. A copy of a work is sold by the holder of copyright in that work (A) to a buyer (B). It is then resold by the buyer (B) to a sub-purchaser (C). The agreement between A and B is subsequently cancelled by A for breach of contract, due to B's failure to pay the agreed price.

i) The first question is whether A is entitled to exercise his/her copyright against C, simply on the ground that C bought the copy at issue from B, without A's consent. It is therefore a question of whether, in principle, the purchase by C of the copy at issue constitutes an act of copyright infringement – regardless of whether that copyright is exhausted in the case at hand.

This comes down to ascertaining:

- first, whether A is entitled to oppose the resale of the copy at issue solely on the basis of his/her copyright, regardless of any contractual restrictions imposed by A on B (given that, where applicable, such provisions could only be invoked by A against B by virtue of privity of contract);

- second, if so, whether A could bring such an action not against B, the other party to the agreement, but against C, the third-party sub-purchaser.

This situation is not directly regulated by statute, since neither the right of distribution nor the right of destination are expressly recognised by French law (see Question 1). The existence of the right of distribution does seem to be implicitly acknowledged by Article L.122-3-1 IPC. Nevertheless, as the law and case law stand, there appears to be at least some doubt as to whether the author is entitled to oppose the simple resale of a copy of his/her work, either by virtue of the author's right of distribution or on the basis of the right of destination doctrine.

Given the relative uncertainty surrounding these concepts, the question of whether there is infringement of the right of distribution, consisting simply of the unauthorised distribution of a copy, could well be raised. However, in any event, even assuming that such a right exists, it might be a step too far to consider that this right has been breached not by the other party to the agreement with the author, who resold a copy, but also by the third-party sub-purchaser, if the latter had not resold the copy,.

Therefore, it is unlikely that A would be entitled to exercise his/her copyright against C, for the sole purpose of suing the latter for having acquired the contested copy without A's consent.

ii) Assuming that A is entitled to exercise his/her copyright against C, then the question arises as to whether C could argue that A had exhausted his/her right to prohibit the resale of the copy at issue.

For the sake of hypothesis, the initial sale from A to B must be deemed to have taken place within the territory of the European Economic Area.

The fundamental condition for exhaustion to occur is that the first sale of a copy within the territory of the European Economic Area, is made with the consent of the copyright holder or the successors thereof. The case law, especially EU case law (see, for example, ECJ, 20 January 1981, *Musik-Vertrieb membran and K-tel International* v *GEMA*, C-55/80 and C-57/80, paragraph 25), widely holds that consent by the rightholder or the successors thereof to a first sale is the cornerstone of exhaustion, and is necessary for exhaustion to occur.

In this case, this condition has clearly been fulfilled, since A itself agreed to a first sale of the copy at issue to B. Pursuant to Article L122-3-1 IPC, A should thus not be entitled to prohibit the resale of this copy to C.

It is also necessary to clarify whether the claim of exhaustion could be called into question due to the cancellation of the original sale, which occurred after the latter had taken place. As far as we know, the courts have not yet ruled on this point. In our view, it seems however unlikely that exhaustion could effectively be challenged. Indeed:

- since A consented to a sale, the subsequent cancellation of said sale for non-payment of the price does not invalidate the consent given by A to the placing on the EEE market of the copy;
- moreover, it would be unfair for C to bear the consequences of a failure by a third party (B) to perform a contract to which C has no link.

Consequently, it appears that if A could exercise his/her copyright against C, C could then dismiss A's claim by invoking the rule of exhaustion.

iii) Finally, the issue of ownership of the copy at issue arises.

According to the general contractual provision of Article 1184 of the French Civil Code, cancellation has the effect of retroactively rendering the agreement null and void. As a result, it should in principle result in B returning the item which is the subject of the agreement, in this case the copy of the work at issue. However, B cannot now return this copy as it no longer owns it, having sold it to C before the initial agreement was cancelled.

Since the agreement between A and B is deemed not to have existed, the agreement between B and C is, in principle, null and void under the Latin adage "*nemo plus juris ad alium transferre potest, quam ipse habet*". Accordingly, C should in principle return to A the item sold, i.e. the copy at issue.

However, if C acted in "good faith" (in other words, if C was not aware that B had not paid the agreed price to A), C could invoke the provision of Article 2276, paragraph 1, of the French Civil Code, according to which "*In the case of movable property, possession is equivalent to title*". Conversely, if C acted in "bad faith" (i.e., if C knew, when buying the copy from B, that

B had not paid the agreed price), C cannot invoke the above provision and A can claim ownership of the copy from C, pursuant to paragraph 2 of Article 2276 of the Civil Code.

Therefore, C should retain ownership of the copy, provided C was not aware that B had not paid the agreed price to A.

e. Are there any statutory exceptions to the exhaustion of rights, e.g. transformation of the work by the licencee/buyer prior to reselling?

There are no statutory exceptions to the exhaustion of copyright.

In the event of transformation of the work, the moral right to integrity of the work would allow the author, or the successors thereof, to oppose any such transformation.

f. May the exhaustion of rights be waived contractually?

The author cannot contractually prevent application of the rule of exhaustion when the conditions for application thereof are met. However, this leaves open the question whether the author may restrict, by contract, the scope of his/her consent to the placing of a work on the market within the European Economic Area (EEA), which in practice would prevent application of the rule of exhaustion when certain contractual restrictions relating to the specific subject matter of the copyright have not been complied with.

In the *Dior* v *Copad* (23 April 2009, C-59/08) and *Greenstar* (20 October 2011, C-140/10) cases, the CJEU answered in the affirmative regarding the breach of certain contractual restrictions imposed by trade mark and plant varieties licences. The French Supreme Court took the same view in the case of contracts authorising a third party, licensee or importer, to place goods covered by trade marks or patents on the market in the EEA (French Supreme Court, Commercial Division, 10 October 2000, PIBD, 2001, III.; French Supreme Court, Commercial Division, 21 October 2008, No 05-12580).

The teachings of these cases could be transposed to copyright matters, as it is the expression of a general principle of EU law, derived from Articles 34 and 36 of the Treaty on the Functioning of the European Union, according to which only restrictions "*justified for the purpose of safeguarding rights which constitute the specific subject-matter*" of intellectual property rights may constitute derogations to the free movement of products. This principle which underlies the theory of exhaustion was upheld in the *Deutsche Grammophon* decision (CJEU, 8 June 1971, C-78/70) concerning copyright. The CJEU subsequently specified that the specific subject-matter of copyright is to "*ensure the protection of the moral and economic rights of their holders* […] [among others] *in that they confer the right to exploit commercially the marketing of the protected work, particularly in the form of licences granted in return for payment of royalties*" (CJEU, 20 January 1981, *Musik-Vertrieb Membran*, 55/80 and 57/80; CJEU, 20 October 1993, *Phil Collins* v *Imtrat*, C-92/92 and C-326/92).

Assuming that the principles developed by EU and French case law regarding trade mark, patent and plant variety license agreements, may indeed be transposed to copyright, it should be infered therefrom that, if the copy of the work is placed on the EEA market by a third party, in particular a licensee, then exhaustion of rights only occurs if the rightholder has consented to said placing on the market, which would imply that the restrictions imposed by the holder on the exercise of his/her rights have been respected.

However, non-compliance by the licensee with contractual restrictions imposed by the rightholder when placing copies of the work on the market could only be invoked to oppose the subsequent marketing of said copies by third-party purchasers if these restrictions relate to the specific subject-matter of copyright (such as the authorised media or exploitation

modes, or the territory where the first placing on the market is allowed). Only such restrictions would be enforceable *erga omnes*, because they relate to the very essence of the authors's rights of exploitation.

In an isolated decision of 26 January 2009, the Court of Appeal of Douai went further and held that the rule of exhaustion of rights only allows the purchaser of a computer program in the EEA to resell said computer program under the same conditions as it was acquired (*Propriété Intellectuelle*, 2009, p. 268). This decision was criticised by Professor Lucas, as it renders the right of distribution effective notwithstanding first sale, in contradiction to the terms of Article 4 of Directive 2009/24 and Article L 122-6-3 IPC. Indeed, according to Articles 4 of Directives 2001/29 and 2009/24 and Articles L 122-3-1 and L122-6-3 IPC, exhaustion is conditional upon a first sale (or other transfer of ownership) *"by the rightholder or with his consent"*.

Taking the view of Professor Lucas, the above texts should therefore be interpreted as meaning that, if the copy of the work is placed on the market in the EEA <u>by the rightholder itself</u>, by means of a sale, this should be sufficient for the rule of exhaustion to apply, and the rightholder could probably not avoid this rule by contractually restricting the scope of his consent to the subsequent movement of the work on the market.

However, the question of the enforceability of contractual restrictions imposed by the rightholder to the placing on the market has not yet been decided by the French Supreme Court or by the CJEU in the area of copyright, and hence the question of whether and under what conditions such restrictions could preclude the exhaustion of copyright remains unsettled in French law.

4) **What is the rationale/justification under French law for the exhaustion of rights?**

The rule of exhaustion in EU law is primarily motivated by the desire to achieve a balance, in a single market between the Member States of the European Union, between the monopoly granted to the holder of copyright and the principle of free movement of goods.

<u>**International exhaustion (specific issue 1)**</u>

5) **Does your law recognise international exhaustion of copyright? Specifically, if a copyright-protected work stored on a tangible medium (such as CD or DVD) which was lawfully made and distributed outside your jurisdiction is imported into and sold in your jurisdiction, may the holder of the copyright in your jurisdiction assert his/her copyright against such copy?**

In accordance with EU law, French law recognises only a regional exhaustion of copyright (and related rights), which is limited to the territory of the twenty-eight EU Member States and the States party to the Agreement on the European Economic Area (Iceland, Liechtenstein and Norway).

Therefore, under French provisions on exhaustion, both the author and the related rights holders may oppose the importation (for sale) of tangible copies of a work which have been lawfully placed on the market outside the European Union and the European Economic Area.

6) **If your law recognises international exhaustion of rights, what is the**

rationale/justification under your law for such international exhaustion?

French law does not recognise international exhaustion, so this question is not applicable.

Online exhaustion (specific issue 2)

7) **Does your law recognise online exhaustion or exhaustion in the case of downloaded copies of copyrightable works? Under which conditions are which kind of rights in different kinds of copyright-protected works exhausted?**

De lege lata, it is necessary to make a distinction between computer programs and other copyrightable works. This distinction results from the implementation into French law of Article 4 of Directive 2001/29/EC on the harmonisation of certain aspects of copyright and related rights in the information society, as interpreted in the light of recitals 28 and 29 thereof, on the one hand, and Article 4(2) of Directive 2009/24/EC on the legal protection of computer programs, which the CJEU considers to be a *lex specialis,* on the other hand (CJEU, *UsedSoft* v *Oracle*, paragraph 56).

Regarding computer programs, Article L122-6, 3 IPC states that "*the first sale of a copy of a computer program, within the territory of a European Community Member State or a State party to the Agreement on the European Economic Area, by the author or with the latter's consent exhausts the right to place said copy on the market in all Member States, with the exception of the right to authorise subsequent rental of a copy*". The text thus does not appear to restrict exhaustion to tangible copies of works, in accordance with Article 4(2) of Directive 2009/24, as interpreted by the CJEU in the *UsedSoft* v *Oracle* case (see paragraph 60).

Regarding other copyrightable works, Article L122-3-1 IPC provides that "*Once the first sale of one or more tangible copies of a work has been authorised by the author or the successors thereof within the territory of a European Community Member State or a State party to the Agreement on the European Economic Area, the sale of these copies of said work cannot be prohibited in European Community Member States or States party to the Agreement on the European Economic Area*". In this case, the text explicitly restricts the rule of exhaustion to works fixed on a tangible medium. Articles L 211-6 and L 342-4 IPC include the same restriction as regards related rights and databases. This restriction arises in particular from the interpretation of Article 4 of Directive 2001/29 in the light of recital 28 thereof: "*Copyright protection under this Directive includes the exclusive right to control distribution of the work incorporated in a tangible article*".

It must be infered from the above that French law explicitly precludes the possibility of invoking online exhaustion in respect of copyrightable works other than computer programs. However, in view of the CJEU case law, French law should allow the rule of exhaustion being invoked with respect to copies of computer programs downloaded from the Internet, in compliance with the conditions laid down by the UsedSoft v Oracle decision. Nevertheless, to our knowledge, French case law has yet to acknowledge the possibility of invoking online exhaustion.

8) **Are rights exhausted in a perpetual or non-perpetual licence? Are "resellers" of digital copies allowed to further resell such digital copies under the circumstances described in UsedSoft v Oracle? Can multi-user-licences be split up and sold separately?**

The possibility of invoking online exhaustion has yet to be recognised by French law as regards computer programs, while it is formally excluded by statute in respect of other copyrightable works. In application of the principle of interpretation in conformity with EU law, which requires that courts in Member States interpret their national law in accordance with the case law of the CJEU, the French courts should recognise online exhaustion in respect of the resale of intangible copies of computer programs under the circumstances described by the CJEU in the UsedSoft v Oracle ruling.

The conditions laid down by UsedSoft v Oracle are aimed at ensuring compliance with the rule laid down at the EU level and implemented into French law, according to which exhaustion only applies to the right of distribution of copies of the work, and not to the right of reproduction, the right of communication to the public and the right of rental, so that this external restriction on copyright is closely linked to the only copies that have been placed on the market by the author or with his consent.

For these reasons, the rights in an intangible copy of a computer program could be considered by French courts to be exhausted only in the event of a transfer of ownership of the copy concerned, while a perpetual licence may, according to the UsedSoft v Oracle decision, be treated as a transfer of ownership for the purposes of exhaustion. Conversely, the grant of a non-perpetual licence of use would not be sufficient to invoke exhaustion of the right of distribution in respect of an intangible copy of a computer program before the French courts.

Similarly, the exhaustion of the right of distribution in respect of an intangible copy of a computer program, assuming it were allowed by the French courts, would require that the reseller makes his own copy of the computer program unusable at the time of resale.

According to the UsedSoft v Oracle ruling, the reseller would therefore not be allowed to split up and resell multi-user licences separately, since such a use would not relate to the copy for which the right of distribution was exhausted, but would have the effect of reproducing the computer program without the consent of the author, thereby infringing the right of reproduction thereon. In this regard, it should be noted that the term "multi-user licences" within the meaning of the UsedSoft v Oracle decision refers to licences covering a single copy of the work, installed by the purchaser on a central server and accessed by multiple users. Such licences do not entitle the purchaser to reproduce this copy on multiple computers.

9) **Is a distinction made for each kind of copyright-protected work (computer programs, music files, e-books and videos)?**

As stated in the answer to Question 7, a distinction should be made between computer programs, for which online exhaustion is not explicitly excluded by the Intellectual Property Code, and other copyrightable works, for which online exhaustion is implicitly excluded by the Intellectual Property Code.

It is thus necessary to determine what rules are applicable to complex works, which have both the features of a computer program and other features, including audiovisual, graphics

and sound aspects, which cannot be reduced to the computer program aspect of the work alone. This seems to be the case of most works available in digital format, because the fixing or conversion of these works into a computer file means that they are likely to have computer program features.

This issue has already been considered by the CJEU, the French Supreme Court and the Paris Court of Appeal with respect to video games, and the position adopted in these cases appears to be applicable to all works available in digital format which cannot be reduced to their computer program dimension.

In a decision dated 25 June 2009 (No 07-20387), the French Supreme Court held that "*a video game is a complex work that cannot be reduced to its computer program dimension, whatever the importance thereof, such that each of its components is subject to the rules applicable thereto by virtue of the nature of said component*". Based on this case law, the Paris Court of Appeal stated, in a decision dated 26 September 2011 (Divineo, RG No 10 /0153) that "*therefore, [the] computer program part [of the video game] is governed by the special copyright rules applicable to computer programs and the other parts of the game, in particular its audiovisual, graphics and sound aspects, are governed by the general rules of copyright*".

The majority of secondary sources, such as in particular Professors Bruguière and Vivant, consider this distributive logic to be applicable to all multimedia works, including e-books. This view also appears to be supported by a decision of 22 December 2010 by the CJEU concerning the protection by general copyright of a graphic user interface (C-393/09). Under this distributive logic, online exhaustion could not therefore be invoked in French law in respect of complex works comprising a computer program dimension because the distribution rights on the non computer program dimension could always be enforced by the author against to the resellers, in the absence of a tangible medium.

In the Nintendo v PC Box decision of 31 January 2014 (C-355/12), the CJEU held that when a video game, as a complex work, comprises "*not only a computer program but also graphic and sound elements, which, although encrypted in computer language, have a unique creative value which cannot be reduced to that encryption […], they are protected, together with the entire work, by copyright under the system established by Directive 2001/29*".

It must be concluded from the above case law that, *de lege lata*, complex works that cannot be reduced to their computer program dimension appear to be subject to the general exhaustion regime, which expressly excludes the possibility of invoking exhaustion in respect of intangible copies.

10) If your exhaustion regime for digital works differs from that for analogue works, what is the rationale/justification for such difference?

As stated in the answer to Question 7, the exhaustion of copyright in works other than computer programs only covers tangible media. In the case of computer programs, online exhaustion is subject to strict conditions to ensure that the distribution of the computer program does not affect exploitation rights other than the right of distribution, which is the only right affected by exhaustion.

There is therefore a legal difference between certain works fixed on an intangible medium (digital work in the form of a computer program) and works fixed on a tangible medium (analog work).

We believe this difference is due primarily - if not exclusively - to the technical difficulty in checking that the dissemination of intangible copies of works respects the limits laid down for the exhaustion of rights.

This is why the dissemination of intangible works may be legally prevented or controlled by the application/integration of technological protection measures (TPMs) to prevent the uncontrolled dissemination of the work, within the European Union itself.

Said TPMs were instituted by French Law No. 2006-691 of 1 August 2006 implementing the Directive of 22 May 2001 and were inspired by the WIPO treaty of 20 December 1996. The measures are very beneficial to rightholders because they make it possible not only to control the dissemination of their works, but also to seek criminal penalties against those who commit acts that would render these measures ineffective.

Exhaustion of copyright-protected works in case of recycling and repair of goods (specific issue 3)

11) **In the case of recycling or repair of goods which are copyright-protected works, to what extent may one recycle or repair such goods without infringing (1) the right of reproduction, (2) the right of adaptation, the right of arrangement and/or other alteration rights; or (3) the right to integrity?**

The question is whether the exhaustion of copyright recognised by French law also includes the right to repair or to recycle goods covered by copyright. When considering this question, we based our analysis on a work of applied art the appearance of which is protected. As a matter of fact, this question has been much debated regarding motor vehicle spare parts (bonnet, mirrors, wings, etc.).

The French Intellectual Property Code does not define the terms "repair" and "recycling". Since the Guidelines for Q 240 expressly refer to Q 205 on "*Exhaustion of IPRs in cases of recycling or repair of goods*", we therefore used the definitions contained in the Guidelines for Q 205. Repair may thus be defined as "*restoring something damaged, worn, or faulty to its original condition suitable for the intended use of the product*" (paragraph 15). A distinction must be made between repair and the complete reconstruction of a product. Recycling is defined as "*acts whereby products that have served their initial utility are being reused but are not reduced to components"* (paragraph 16). The components of the product are recycled individually to form the components of another product.

The French Intellectual Property Code does not contain specific provisions establishing the conditions under which goods protected by copyright can be repaired or recycled. In particular it does not provide for a specific exception to the monopoly granted by copyright allowing the repair or recycling of a product covered by copyright. The question of the right of repair and recycling must therefore be analysed on the basis of the general principles of copyright law.

Consequently, since, in French law, exhaustion of copyright applies only to the right of distribution, the author may in principle oppose acts of repair or recycling which affect its other rights, specifically the right of reproduction and moral rights. An exception is only provided by statute in a particular case, namely the right to correct errors in a computer program.

a) *Repair of goods protected by copyright*

Copyright protects any creation in terms of form which is perceptible to the senses. The only condition to be met is originality. The only restriction is that this form not be dictated by considerations which are technical and not purely aesthetic. If any part of the work is not protected by copyright, either because it is not original, or because the shape thereof is dictated by technical considerations, the manufacture of this part of the work is, in principle, free.

However, the possibility of manufacturing spare parts and replacing a damaged part of a product protected by copyright may be restricted on the basis of the right of reproduction and the moral right of the author (which are not subject to the rule of exhaustion):

- The first restriction is based on the exploitation rights of the author. If a spare part is itself protected by copyright, the manufacture of the spare part necessarily infringes the right of reproduction.
  Proving that the spare part is protected by copyright may in practice be difficult. Article L 122-4 IPC provides that "*Any public communication or reproduction of a work, in whole of in part, without the consent of the author or the successors or assigns thereof, shall be unlawful*". Reproduction of part of a copyrighted work therefore constitutes infringement. However, if it is shown that the part reproduced is not original, then there is no infringement. Nonetheless, it is up to whomever reproduces part of a work to show that this part is not original and therefore not protected by copyright, because the case law has instituted a sort of presumption of copyright protection for parts of an original work (French Supreme court, Criminal Division, 6 June 1991, relating to designs, but the solution may be transposed to copyright).

- The second restriction relates to moral rights, particularly the right to integrity of a work. Specifically, if the new spare part is not identical to the original part, the form of the product, and therefore the original work, will be altered, which in principle infringes the right to integrity. In this regard, the majority of case law holds that alteration of a work necessarily infringes the right to integrity of the work. However, there is evidence in the case law of a degree of tolerance as regards works with a utilitarian (especially architectural) purpose, by balancing the interests of the author and those of the owner (Paris Court of Appeal, 1ère ch., 11 July 1990, *perret*; Cass. 1ère civ., 11 June 2009, *Brit Air*).

- Lastly, the final restriction on the right to make repairs relates to the possibility that it might be abused to actually reconstitute a work. Resolution Q 205 (point 3) makes a distinction between repair of a patented product, which should be lawful, and reconstruction, which involves the reproduction of an essential component of the product and which should constitute infringement. This restriction appears to be applicable to French copyright law. The reproduction of the substantial part of an intellectual work in principle constitutes infringement, because the substantial part of an intellectual work is *a priori* the original part of the work (i.e. it happens rarely that the originality of the work does not lie in the substantial part thereof).

The only statutory exception to copyright, granted so as to permit the repair of a work or which can be considered equivalent to a right to repair, is the right to correct errors in a computer program. Under French law, computer programs are protected by copyright. Article L122-6-1 IPC provides that acts of reproduction, translation or adaptation of a computer

program are not subject to the consent of the author "*where they are necessary to enable the use of the computer program by the person entitled to use same in accordance with the intended purpose thereof, including for the correction of errors*". Therefore, a person who has legally purchased a computer program has the right to modify the source code thereof so as to correct errors and bugs. Such an act can be deemed equivalent to repair. However, this exception for the purposes of correction may legally be counteracted, since Article L 122-6-1 specifies that "*the author may reserve the right to correct errors*". In practice, the license to use a computer program may thus provide that the right of correction is excluded from the scope of the agreement.

a) *Recycling of goods protected by copyright*

Recycling consists in dismantling a product in order to use some parts thereof to have another function. The question is whether parts of a product protected by copyright may be reused.

In principle, the reuse of a part of a product as a component of another product is not prohibited.

However, the situation is different if the initial product protected by copyright is dismantled and one of the parts thereof is removed so as to be reused in another product. This act of dismantling, as such, infringes the moral right to integrity of the work (which is not subject to the rule of exhaustion). The author could also consider that the incorporation of part of his work (the recycled part) in a new product infringes his right to integrity of the work. In practice, it goes without saying that if an industrial product is worn and discarded, it is highly unlikely that a court would take the same view.

However, it does not appear that recycling part of the work would infringe the right of reproduction (right of adaptation or fragmentation), because it does not involve any act of reproduction.

II. POLICY CONSIDERATIONS AND PROPOSALS FOR IMPROVEMENTS OF THE CURRENT LAW

12) How should the law treat exhaustion of rights?

Specifically:

a) **Should exhaustion of rights occur for all kinds of works or should exhaustion be limited to certain kinds of works?**

Exhaustion should cover all kinds of works, to ensure consistency within the copyright regime.

b) **Which right(s) should be exhausted?**

Exhaustion should only cover the right of distribution of a copy of the work, whether tangible or not.

c) **What should be the requirements for exhaustion of rights to occur?**

Exhaustion should occur, whether or not the copy of the work is tangible, when the author himself places a copy of the work on the market, by means of a sale or any other transfer of ownership, or when said copy is placed on the market with the author's consent, within the territory of the European Economic Area. In the latter case, the party who invokes exhaustion must prove the author's consent. If the author himself places the work on the market, his consent is presumed.

For digital works which are particularly easy to copy (whether computer programs or not), the author should be allowed to require proof that the reseller did not keep a copy of the work at the time of resale for exhaustion to occur.

d) Should copyright be exhausted even if the first sale of a copy by which exhaustion occurs is cancelled due to non-payment of the sales price or similar circumstance?

Exhaustion should occur only if the sub-purchaser acted in good faith, i.e. if it did not act in fraud of the author's rights in collusion with the transferee of the rights (the latter having failed to pay the sale price).

<u>International exhaustion (specific issue 1)</u>

13) Should there be international exhaustion of copyrights?

Regional exhaustion allows copyright holders to develop different marketing strategies according to the various different geographic markets where their works are sold, in particular by setting a sales price that takes into account the purchasing power of the people likely to buy a copy of the work, by offering works of varying levels of quality or in different formats, or in order to respect regional or national regulations on media chronology, for example. The introduction of international exhaustion would remove this flexibility for the rightholders, while leading them to apply the same prices regardless of the place of sale of the work, at the expense of consumers in emerging countries. The ease with which copies of digital works can be made, and the quality of the copies, also make international exhaustion particularly dangerous for rightholders since anyone could lawfully resell, on the Internet, a work purchased anywhere in the world.

The French AIPPI group is therefore not in favour of international exhaustion of copyright. However, the French group considers that countries that want to create a single market with free movement of goods, should be able to provide for regional exhaustion by multilateral agreements.

<u>Online exhaustion (specific issue 2)</u>

14) Should there be online exhaustion of downloaded copies? In your view, are downloaded copies fully comparable with copies stored on tangible data media?

Traditionally, in France, there is no legal ground to distinguish between works fixed on tangible media and on an intangible media. It is only because of the nature of the digital

environment, which allows duplication of an infinite number of perfect copies of works, that it has been necessary to establish rules to control the dissemination and exploitation thereof.

Downloaded copies are not fully comparable with copies stored on tangible media, for two main reasons: (1) second-hand intangible copies have the same economic value as new copies because of the quality of digital copies, with the result that the damage arising from the reproduction and subsequent distribution of second-hand copies in breach of copyright is much greater, and (2) it is difficult for rightholders to ensure that the distribution of such intangible copies respects the restrictions laid down as regards the exhaustion of the right of distribution on computer programs.

Accordingly, online exhaustion of all works protected by copyright not only would require a reform of European legislation and French law, but could only be considered under strict conditions, inspired by those laid down by the CJEU in the UsedSoft v Oracle case, and subject to rightholders being able to implement technical measures to monitor compliance with these conditions.

15)) If there should be online exhaustion, under which conditions should different kinds of rights be exhausted? Should there be any differences between downloading a work and streaming it? Should rights be exhausted in a perpetual or non-perpetual licence? Should "resellers" of digital copies be allowed to further resell such digital copies? Should multi-user licences be split up and sold separately?

If there should be online exhaustion of each type of work, it could only concern the right of distribution of the work. To ensure that the author's other exploitation rights are not affected, exhaustion should therefore be subject to compliance with the following conditions, which could be enforced by technical means:

- online exhaustion must involve a transfer of ownership of the work or at least a perpetual licence granted by the copyright holder. This excludes downloaded works which are covered by a temporary licence, and works made available via streaming, because the dissemination of such works would infringe the author's rental right and/or right to communicate the work to the public;

- the right of distribution of an intangible copy of a work can be exhausted only if the reseller does not keep a copy thereof after resale. Otherwise, there would be no transfer of ownership of the copy of the work in question and the subsequent dissemination of the work would infringe the author's right of reproduction.

Resellers of digital copies should therefore not be permitted to resell such digital copies unless it is possible to ensure that they do not retain a copy of the work resold. In the event of a dispute, it is therefore up to resellers to prove that they have not kept a copy of the work if they wish to invoke the rule of exhaustion.

The same conclusion can be reached with respect to multi-user licences within the meaning of the UsedSoft v Oracle decision. As can be seen from said ruling, the consent granted by the author in the context of multi-user licences relates to a specific copy (identified by serial number, for example) of the work and this copy cannot be reproduced by subsequent purchasers under the rule of exhaustion. Therefore, multi-user licences may not be split up and sold separately because breaking them up in such a way, would mean that several subsequent purchasers would retain a copy of the work, which would not come under the conditions laid down by the CJEU.

16) Should a distinction be made for each type of copyright-protected work (e.g. computer programs, music, e-books and films)?

As long as the conditions mentioned in the answer to Question 15 are met, there is no reason to distinguish between different types of copyright-protected works. However, as stated above, there is a need to provide technical means to ensure that the seller does not retain a copy of the work sold.

Exhaustion of copyright on protected works in the case of recycling or repair of goods (specific issue 3)

17) To what extent should one be able to recycle or repair goods which are copyrightable works without infringing (1) the right of reproduction, (2) the right of adaptation, arrangement and other alteration rights; and (3) the right to integrity?

The French group does not advise to introduce a special exception to the author's monopoly in the case of repair or recycling of goods constituting original works, even if the right of distribution of these works is exhausted, for the following reasons.

First, the current debate on the exception to copyright in the case of repair or recycling only appears to concern the specific sector of motor vehicle spare parts. In this respect, it is worth pointing out that the French Competition Authority issued an opinion (No 12-A-21 dated 8 October 2012) on "*the competitive operation of the sectors of the repair and maintenance of vehicles and the manufacture and distribution of spare parts*". This report recommends limiting manufacturers' copyright (such as design rights) to visible parts (wings, bonnets, bumpers, windscreens, lights, rear-view mirrors, etc.). In addition, the report suggests "*lifting, gradually and in a controlled manner, the restriction as regards spare parts for the purposes of repair*" (see press release, p. 2).

The French group is in principle opposed to the introduction of a special exception to copyright in the case of repair or recycling applicable only to the motor vehicle industry, as this would be contrary to the French tradition of not distinguishing between different types of works.

Furthermore, the French group is not in favour either of introducing a general exception to copyright in the case of the repair or recycling of goods constituting original works, because repair and/or recycling may infringe the author's right of reproduction or moral right to integrity of the work, whereas exhaustion only covers the author's right of distribution.

In conclusion, the French group is in favour of the freedom to repair or recycle a work protected by copyright provided that: (1) the repair does not infringe the author's right of reproduction and (2) the recycling or repair does not affect the author's moral rights, in particular the right to integrity of the work.

III. PROPOSALS FOR HARMONISATION

18) Should exhaustion of rights as set forth in Question 12 above generally be harmonised? Please provide your reasons.

Exhaustion of rights should be harmonised because it sets the limits of the author's rights over authentic copies of his work. Disparities between national laws as regards the definition of exhaustion are likely to strengthen the arguments regularly raised in opposition to the recognition of the exclusive rights of authors over their works, especially in the case of authentic works, which have been lawfully acquired by a transferee.

19) Should international exhaustion of rights be harmonised or not? Please provide your reasons.

As stated in the answer to Question 13, the French group is not in favour of international exhaustion of copyright. However, the French group does believe that countries that want to create a single market with, in particular, free movement of goods, should be able to provide for regional exhaustion by multilateral agreements.

To prevent the distortion of international trade as a result of disparities between national laws, the French group is therefore in favour of harmonising the rules of international exhaustion to the effect that States may not unilaterally adopt international exhaustion but may make provision in their legislation for national exhaustion or, subject to a multilateral agreement, regional exhaustion covering only those countries that have agreed to participate in the single market covered by said agreement.

20) Should online exhaustion of rights be harmonised? Please provide your reasons.

Online exhaustion should be harmonised, because the Internet allows works fixed on intangible media to be distributed worldwide.

Exhaustion of rights in respect of intangible media should be treated in the same way as that relating to tangible media, subject to compliance with conditions ensuring that it does not affect any author’s rights other than the right of distribution.

In the interests of rightholders there is a need to find a technical solution that enables them to ensure, in particular, that in the event of the transfer of the media holding their work the seller does not retain a copy of the work transferred.

However, such a solution does not exist at present. Therefore, online exhaustion of copyright should be harmonised when there will exist technical (or legal) tools to ensure the compliance with the limits thereof.

21) Should exhaustion of rights in case of recycling and repair of goods be harmonised? Please provide your reasons.

As stated in the answer to Question 17, the French group does not believe that exhaustion, as an exception to copyright, should also cover the repair or recycling of goods.

In particular, the author should be permitted to oppose the repair or recycling of a work protected by copyright even where the right of distribution is exhausted, under the following circumstances: (1) where such repair infringes his right of reproduction over the work, or (2) where the repair or recycling infringes his moral rights, in particular the right to integrity of the work.

The French group is therefore in favour of harmonising exhaustion except in the case of repair and recycling, in particular to prevent the distortion of international trade as a result of disparities between national laws.

Summary

The French Group considers that:

- *Exhaustion of copyright should be harmonised because it sets the limits of the author's rights over authentic copies of his work and that globalization gives by nature to the dissemination or works a worldwide scope.*
- *Exhaustion should cover all kinds of works.*
- *Exhaustion should only cover the right of distribution of copies of the work, whether fixed on a tangible medium or not.*
- *For digital works, the author should be allowed to require proof that the reseller did not keep a copy of the work at the time of resale.*
- *It is not advisable to introduce a special exception to the author’s monopoly in the case of repair or recycling of goods constituting original works.*
- *International exhaustion of copyright should not be introduce on an harmonized basis. However, countries that want to create a single market with free movement of goods, should be able to provide for regional exhaustion by multilateral agreements.*

Résumé

Le groupe français considère que :

- *L’épuisement des droits d’auteur devrait être harmonisé car il fixe les limites des droits de l’auteur sur les exemplaires authentiques de son œuvre et que la mondialisation donne par nature à la diffusion des œuvres une portée internationale.*
- *L’épuisement devrait concerner tous les types d’œuvres.*
- *L’épuisement ne devrait concerner que le droit de distribution des exemplaires de l’œuvre, qu’ils soient matériels ou non.*
- *Pour les œuvres digitales, l’auteur devrait pouvoir exiger la preuve que le revendeur de l’exemplaire de l’œuvre n’a pas conservé de copie de l’œuvre au moment de la revente.*
- *Il n’est pas souhaitable d’instaurer une exception particulière au monopole de l’auteur à l’occasion de la réparation et du recyclage des produits constituant des œuvres originales.*
- *L’instauration d’un épuisement international du droit d’auteur n’est pas souhaitable. En revanche, les pays qui souhaitent créer un marché unique, doivent pouvoir prévoir par convention, un épuisement régional.*

Zusammenfassung

Die französische Landesgruppe weist auf Folgendes hin:

- *Die Erschöpfung der Urheberrechte sollte harmonisiert werden, weil dadurch die Grenzen der Rechte des Urhebers auf die Originalexemplare seines Werkes festgelegt werden, und die Globalisierung verleiht der Verbreitung der Werke naturgemäß internationale Reichweite.*
- *Die Erschöpfung sollte alle Arten von Werken betreffen.*
- *Die Erschöpfung sollte nur das Recht des Vertriebs von Exemplaren des Werks betreffen, unabhängig davon, ob sie materiell sind oder nicht.*
- *Bei digitalen Werken sollte der Urheber den Nachweis fordern können, dass der Händler des Exemplars des Werkes beim Verkauf keine Kopie des Werks behalten hat.*
- *Die Gewährung einer besonderen Ausnahme vom Urhebermonopol bei der Reparatur und dem Recycling der Produkte, die Originalwerke darstellen, ist nicht wünschenswert.*
- *Die Gewährung einer internationalen Erschöpfung des Urheberrechts ist nicht wünschenswert. Dafür müssen die Länder, die einen einheitlichen Markt schaffen wollen, durch ein Übereinkommen eine regionale Erschöpfung vorsehen können.*