Introduction

On September 8, 2020, Omega Auctions, a top auction house for music memorabilia and vinyl records, offered for sale a rare CD copy of Ed Sheeran’s first ever, unreleased album, *Spinning Man*. While the CD’s opening price was £10,000, it ultimately sold for £61,500 including the buyer’s premium. Mr. Sheeran had given away said copy to a relative’s friend when he stayed and slept at his relative’s house during his busking days. Over a decade later, the brother of that friend found the demo in a drawer and subsequently sold it at the auction. In his 2014 book, Mr. Sheeran wrote that he had produced twenty copies of the album himself and created the cover art, too. Nevertheless, he was unwilling to allow “anyone else to get hold of a copy,” and he therefore kept the remaining nineteen CDs.¹

While such news might be of pressing interest to auctioneers (is there anything similar out there yet?), music fans (are those songs great?), or Ed Sheeran himself (I don’t want to hear my old love songs on YouTube), the story has its own exciting copyright dimensions, especially from the perspective of the doctrine of exhaustion. Mr. Sheeran lawfully transferred the ownership (through gift) of a lawfully created copy of a copyright-protected subject matter to another person, who then offered that copy for sale (through an auction house). Such constellation is what exhaustion is designed to deal with. Nonetheless, some open questions remained. What will the new owner do with the copy? Admittedly, exhaustion does not allow for the use of the copy for purposes other than a further resale. Moreover, the current owner of the copy could face serious copyright consequences, if any of the fourteen tracks of *Spinning Man* would find its way to streaming portals, or the CDs were to be multiplied without Mr. Sheeran’s prior written permission.

This book is about similar stories – although probably less compelling than the case of *Spinning Man*.

¹ Nugent (2020).
The doctrine of exhaustion, more commonly referred to within the US as the “first-sale” doctrine, is one of the most fundamental principles of copyright law. Under this doctrine, the rightholder must accept that copies, or the originals of copyrighted works, and other subject matter lawfully placed into circulation by or with the authorization of the rightholder, through sale or in any other form of transfer of ownership, are subsequently distributed by the lawful owner of those copies or originals, if the rightholder received proper remuneration for the initial distribution.

Anglo-Saxon academia and case law have often stressed that this doctrine stems from the common law’s refusal to permit restraints on the alienation of chattels, but the earliest clear and direct reference to the *Erschöpfungslehre* in copyright law is found in Joseph Kohler’s monograph published in 1880.

Regardless of the precise origins of the doctrine, both the US Supreme Court and the Supreme Court of the German Reich confirmed the validity of this concept, at similar times and in cases with comparable fact patterns. The *Königs Kursbuch* and the *Bobbs-Merrill* cases both concerned the resale of books, which were originally put into circulation...
by their respective publishers at a fixed price, yet subsequently, in some instances, were resold at a lower price. Both rulings were based on the premise that if the rightholder had received fair remuneration for the first sale then they had no right to control further resales of the given copies. This argument is known as Belohnungstheorie in the German legal system and as the “reward theory” in Anglo-Saxon jurisprudence. These two revolutionary decisions serve as apt examples for the underlying theory (functionalism) developed by Konrad Zweigert and Hein Kötz. They submitted that “one can almost speak of a basic rule of comparative law: different legal systems give the same or very similar solutions, even as to detail, to the same problems of life.”

Indeed, similar questions like what is a first sale; who are lawful acquirers; the goods versus services and the license versus sale dichotomy; the transformation of lawfully acquired copies; or the applicability of the doctrine in the digital realm had to be answered in both jurisdictions.

Following the US Supreme Court’s decision in the 1908 Bobbs-Merrill case, the US Congress codified the first-sale doctrine in the newly enacted Copyright Act 1909. Since then, the first-sale doctrine has actively contributed to the development of US copyright law. By way of comparison, although the legal system of the EU is much younger than that of the US, the doctrine of exhaustion has gained similar prominence there. Intellectual property was not originally listed among the competences of the EEC in the Treaty of Rome 1957. However, the regional protection of copyright law has subsequently been developed through the European Court of Justice (ECJ) case law. Indeed, several rulings, particularly on the free movement of goods and services, have played a pivotal role in the evolution of copyright law within the EU.

The determination of the exact content of this doctrine may vary, in light of countries’ divergent socio-economic backgrounds and their differing policy considerations. Broadly speaking, the treatment of the doctrine is analogous across jurisdictions. The fundamental objective is to establish a balance between the exclusive rights of the rightholder on the one hand, and on the other hand the ownership interests of those

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10 Except where expressed reference is made to the European Economic Community (EEC), the book uses the abbreviation “EU” to cover both the EEC and the European Union.
11 The earliest preliminary ruling of the ECJ in this matter was Deutsche Grammophon Gesellschaft mbH v. Metro-SB-Großmärkte GmbH & Co. KG, Case 78/70, ECLI:EU:C:1971:59. See infra II.1.2.
persons who acquire physical control over a copy of a protected subject matter. Indeed, as Sam Ricketson and Jane Ginsburg noted:

[t]o extend the author’s rights so as to encompass the ways in which these objects [the objects in which the work is embodied or reproduced] are distributed and subsequently dealt with brings these intangible rights into direct conflict with the rights of property that the owner of a copy enjoys once he has purchased it.  

While it is true that establishing a balance between proprietary and copyright interests is central, the doctrine of exhaustion also represents a staunch economic battlefield between international stakeholders. Countries and regional organizations, as well as intellectual property owners and end users/consumers, have considerably different commercial interests. As Shubha Ghosh noted,

[i]ntellectual property owners tend to be large companies with political and economic clout while users are dispersed and generally have weaker economic and political power. Consequently, the political pressure in both the legislature and courts is to place limits on the exhaustion principle.

Allowing third parties to trade goods freely between countries might limit the extent to which rightholders can exercise their economic rights. Such practices might also have direct or indirect consequences on the budget of the affected countries. In order to mitigate this impact, several governments have limited the doctrine of exhaustion to function solely within their borders and prohibited the importation of copies of protected subject matter, without the express authorization of the rightholder.

Looking at more historic examples, England limited the importation of books published abroad as early as 1534. Likewise, one of the first economic decisions of the evolving the US was the foundation of an “Association” by the First Continental Congress to boycott the importation and consumption of British and Irish goods. Unsurprisingly, such protectionist behavior was present in many countries over the centuries – both related and unrelated to the modern exhaustion doctrine.

However, this logic is not followed by all nations, with a small number choosing to accept the doctrine of international exhaustion.

14 “[…] [T]he decisive act of 1534 […] finally revoked the privileges granted to the foreign printers fifty years before, and forbade the import of all bound books upon pain of 6s. 8d per volume.” See Loades (1964) 49.
15 Compare to McCusker and Menard (1991) 358–377. The non-importation ban had a long-lasting effect, keeping the “manufacturing clause” alive in US copyright law as late as the twentieth century. See Chapter 3, note 74.
Introduction

These countries generally consider free trade paramount (e.g., the Netherlands) or they have limited access to copies of works due to their geographical location (e.g., New Zealand). A particularly noteworthy example is the US Supreme Court’s recent decision in *Kirtsaeng*, which departs from the US’s traditional understanding of the first-sale doctrine and opened the doors to international exhaustion.

For an intermediary interpretation of the doctrine, one must look no further than the EU. This economic organization was originally set up to allow six (and later, many more) countries to trade with each other in a single, uniform market. Thus, barriers to cross-border exchange of goods and services might inevitably run against the basic concept of the EU.

In light of the above contextual overview, attention must now turn to briefly outlining the aims and ambitions of this book. The aim is to provide a concise and comparative discussion of the development, content, policy considerations, regulation, and case law of the doctrine of exhaustion under the law of the US, the EU, and, where necessary, several specific Member States of the EU. Chapter 1 summarizes the theoretical framework, policy considerations, and international background of the principle in copyright law. Chapters 2 and 3 introduce the historical development of exhaustion within both the EU and the US. These chapters will also consider built-in limitations of the system, namely, the ban on parallel importation, as well as the resale right (*droit de suite*).

Chapter 4 considers the present issues and future challenges facing the doctrine of exhaustion. The most important copyright challenges of the twenty-first century are generally bound to the application of the existing legal principles to the digital environment. The main challenge for a doctrine of digital exhaustion is whether retailers and end users can resell digital data files “sold” via online platforms lawfully. The question is not only timely but also extremely challenging to answer. A physical, tangible copy possesses significantly different characteristics when compared to an intangible copy. At the same time, social needs have changed drastically in the last decades. This makes the reconsideration of the applicability of the exhaustion doctrine for digital goods necessary. Moreover, the latest tendencies in the field might require a reconsideration of contract law, too. Digital files are most often acquired under licenses, rather than through sales. Nevertheless, it is timely to consider whether the contracts for the transfer of digital files should effectively be treated as licenses rather than sales.  

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16 Hauck et al. (2016) 147.
Commentators often focus on the three most famous cases, *UsedSoft*, ReDigi, and *Tom Kabinet*. However, this book will move beyond this rather simplistic analysis and demonstrate how the judicial practice in both the EU and the US is far more complex than one might initially assume. It will also address how rightholders try to circumvent the constructive (some might say, liberal) interpretation of the ECJ in *UsedSoft* – namely, whether the use of more restrictive license contracts, the spread of service-type uses, and the virtualization of services offered by rightholders can make any discourse on a digital exhaustion doctrine futile.

This book aims to focus on the statutes and case law of the US and the EU as well as the EU’s Member States. It will introduce the normative background of the doctrine of exhaustion and provide thorough insight into the case law (“law in action”) on this subject. Mark van Hoecke is correct in saying that “we need a ‘toolbox,’ not a fixed methodological road map” for any comparative legal research. This book is not an exception: various comparative legal methods will be applied throughout the book. From the six methods that van Hoecke listed in his seminal paper, this book aims to rely on Zweigert and Kötz’s “functionalism,” the “law-in-context method,” and, consequently, on a special combination of these methods, the “common core method.” To a certain degree, when online retailers’ end-user-license-agreements will be analyzed, a quantitative and qualitative empirical (data analysis) research method will also be applied.

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21 According to van Hoecke, this method practically means that “rules and concepts may be different, but that most legal systems will eventually solve legal problems in a similar way.” This method allows for the looking for functional equivalents and differences in various legal systems. Compare to ibid., 9.
22 This method focuses on the political-technological-economic environment, which formed the body of the law; it necessitates the empirical observation of case law and more. Compare to ibid., 16–18.
23 This method “looks for commonalities and differences between legal systems in view of the question to what extent harmonization on certain points would be possible among the compared legal systems or the question how a European rule […] could be interpreted in such a way that it fits best the different national traditions.” Compare to ibid., 21.
24 Other than the sources mentioned earlier, the book further builds its comparative methodology on the works of Oderkerk (2001); Glenn (2006); Husa (2006); and Wolff (2019).