

Question Q240

National Group: ESTONIA

Title: Exhaustion issues in copyright law

Contributors: Kairi KURISOO

Reporter within Working Committee: Kairi KURISOO

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Questions

The purpose of Q240 is to discuss and analyse exhaustion issues in copyright law. Specifically, expand on the subject on how the first sale is regulated and if the exhaustion regime makes any distinctions under the national law between physical copies and digital copyright-protected works.

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 WCT? If so, please cite the provisions which set forth the definition of the right of distribution and recognise such right?**

Yes, the Estonian Copyright Act recognises the right of distribution within the meaning of Article 6, paragraph (1) of WCT Treaty.

The right of distribution in Estonia is set forth under Art 13 (1) 2) of the Copyright Act:

§ 13. Economic rights

(1) An author shall enjoy the exclusive right to use the author's work in any manner, to authorise or prohibit the use of the work in a similar manner by other persons and to receive income from such use of the author's work except in the cases prescribed in Chapter IV of this Act. The author's rights shall include the right to authorise or prohibit:

2) distribution of the author's work or copies thereof (distribution right). "Distribution" means the transfer of the right of ownership in a work or copies thereof or any other form of distribution to the public, including the rental and lending, except for the rental and lending of works of architecture and works of applied art. The first sale or transfer in some other manner of the right of ownership of a copy of a work by the author or with his or her consent in a Member State of the European Union or a state which is a contracting party of EEA Agreement shall exhaust the right specified in this clause and copies of the work may be further distributed in the Member States of the European Union or the states which are contracting parties of EEA Agreement without the consent of the author. An author shall enjoy the exclusive right to authorise or prohibit the rental or lending of copies of his or her works to the public even in the case where the distribution right has been exhausted, except in the cases provided for in § 13³ of this Act (*the referred provision regulates checking out works and recording of works from a library*).

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?**

Yes, the Copyright Act in Estonia does recognize exhaustion of copyright-protected works after the first sale of the work with the authorisation of the author (regulated under Art 13 (1) 2) as described under question 1 above).

The exhaustion principle applies generally for sales of the works in the member states of the European Union as well as in the contracting parties of EEA Agreement. Articles 90 (1) and 91 of the Copyright Act make an exception here concerning databases and computer programmes – the law states that the exhaustion of distribution right related to the databases and computer programmes applies only when the first sale is concluded in the European Union (i.e. concerning databases and computer programmes, the first sale in the contracting parties of the EEA Agreement will not bring along exhaustion).

The rental and lending rights of the author are not exhausted and have been excluded from the general exhaustion of distribution right. This, in turn, comes with the exception for cases as provided in § 13³ of the Copyright Act (*regulating checking out works and recording of works from a library*).

The exhaustion of copyright-protected works after the first sale is recognized by the statutory law with no substantial case law to support it. One mention-worthy court decision regarding the right of distribution (not specifically regarding the question of exhaustion) was made by the Supreme Court of Estonia in 2009 (Case No. 3-2-1-104-09) where the court stated that the distribution of work includes any kind of activity that has a causal relationship with the work becoming available to the public.

- 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 is not limited to certain kind of works but is generally applicable to all copyright-protected works. Also, see the answer to question 2 above.

- 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?**

Under the Copyright Act, the right of exhaustion is limited to the right of distribution only.

- 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 order for exhaustion of rights to occur in Estonia, the law prescribes that there has to be a sale (or transfer of ownership in some other manner) of the copyright-protected work.

The process of sale (or transfer of ownership in some other manner) has not been specified in the Copyright Act or by the state courts. Thus, the general rules of the contract law are applicable, where the main precondition for a sale transaction to be effective - is a mutual declaration of intent for the transfer of the right of ownership in that copy of work.

- 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 sales 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?**

See answer to question 3 c) above. There are no specific provisions in the Copyright Act that regulate such question. Thus the general rules of the contract law and property law are applicable to the transaction.

According to the Estonian contract law, a third party cannot *bona fide* acquire rights. Under the property law a physical copy of the work (e.g. a book) may remain to the buyer (i.e. *bona fide* acquisition). Although Estonian laws do not recognise *bona fide* acquisition of rights, it cannot be ruled out that after the rights have once been exhausted (all the preconditions for a lawful sale and exhaustion of rights have been fulfilled) it is not possible to restore the pre-contractual state anymore.

As there has also been no case law to give guidance or instructions concerning the restoration of copyright when the first sale has been cancelled, we cannot make a well-founded assertion on how the courts would decide a case in this matter.

- e) **Are there any statutory exceptions to the exhaustion of rights, e.g. transformation of the work by the licensee/buyer prior to re-selling?**

There are no statutory exceptions to the exhaustion of rights (except as stated under questions 1 and 2 above, the rental and lending rights). The exhaustion only concern the right of distribution, the right of reproduction and the right of renting and lending and other proprietary copyrights are not included under this concept (also, see the answer to question 3 b) above) .

As a result of exhaustion, the copies of the work may be further distributed in the Member States of the European Union or the states which are contracting parties of EEA Agreement without the consent of the author. The law does not prescribe a right to any alteration or transformation of the work before the resale.

In general transformation or changes in the work are part of the author's moral rights and such rights are not transferrable. If the licensee/buyer alters the work in any manner prior the re-selling of the work, the licensee/buyer may be infringing the author's moral rights.

- f) **May the exhaustion of rights be waived contractually?**

The Copyright Act does not address the contractual waiver of exhaustion of rights. In principle, parties are free to agree upon the conditions that concern their contractual relationship insofar as it is not expressly prohibited under the laws. As neither the national nor case law give any indication over the admissibility of the waiver of exhaustion of rights, it is difficult to assess what the courts would decide about a contractual waiver. In any case, this kind of agreement could only be binding between the contractual parties themselves and not be applicable to any third party. Thus, in case the copy of work is transferred (as a breach of the contractual limitations) to any third party, this third party may resell the copy and the right holder will not have legal means to stop such resale.

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

The regional (i.e. the European Union level) exhaustion regime was enacted into the Estonian Copyright Act in the year of 2004 (when Estonia became the member of the European Union). Before that Estonia recognized exhaustion only within Estonia. Available resources do not reflect any specific justifications or explanations by the legislators to their rationale of including the exhaustion of rights into the Estonian Copyright Act. Assumedly the reasons stem from the same general argumentation that consolidates free movement of goods and intellectual property rights.

International exhaustion (specific issue 1)

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?

The Estonian Copyright Act does not recognize international exhaustion of copyrights. Estonia only recognises regional exhaustion within the European Union and the contracting parties of EEA Agreement. See also the answer to question 2 above.

6) If your law recognises international exhaustion of rights, what is the rationale/justification under your law for such international exhaustion?

See the answer to question 5 above.

On-line exhaustion (specific issue 2)

7) Does your law recognise on-line 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?

The Estonian Copyright Act does not provide a specific regulation for on-line exhaustion. In general, copyrighted works are not differentiated, meaning that the same principles as apply to the tangible works should also be applicable to downloaded copies of copyrightable works and other digital works. This principle that works are not differentiated has also been brought out in the new legislative draft of the Copyright

Act.¹ The draft is still in its first stage and has not passed any readings at the Parliament, therefore it will not be described here in further detail.

Furthermore, as the national laws are silent on the question of on-line exhaustion or in cases of downloaded copies of copyrightable works, Estonian courts are most likely to follow the case law of the Court of Justice of the European Union – including the CJEU decision *UsedSoft v. Oracle* among others. As the aforementioned court decision also set forth the duty to delete (or make unusable in some other way) the digital copy upon first sale, it has been stated in the draft of the new Copyright Act as mentioned above that the legislator sees no need to introduce any additional special regulations into the national law as the principles as stated by the CJEU are already applicable through teleological interpretation.

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

There is no specific regulation to govern this matter, thus the general principles of the contract law are applicable. In general, the concept of a sale contract and license contract is different in Estonia. A license grants the licensee the right to exercise the rights arising from intellectual property to the agreed extent and on the agreed territory for a fee. No ownership is transferred as it is common to a sales contract.

Nevertheless, the courts are likely to take heed from the instructions of the CJEU in this matter (incl., *UsedSoft v. Oracle*). It should be noted, however, that under § 374 of the Law of Obligations Act, both parties to the license contract are allowed to terminate a perpetual license in one year's notice. It follows that in Estonia granting a perpetual license (for an unlimited period) might not fall under the concept of "distribution" as prescribed in the Copyright Act and interpreted by CJEU as it can be easily terminated. Thus, under the Estonian national laws the concept of a "sale" with a license agreement seems to be more similar with the use of a long-term non-perpetual license.

As there is no national case law to give guidance on how to deal with exhaustion concerning a license (when and on what conditions a license agreement would constitute a sale), it is not clear at the moment how this matter would be approached and dealt with under the national laws.

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

Distinction is not made for each kind of copyright-protected work but the Copyright Act does distinguish databases and computer programmes from other copyright-protected works. The respective regulations are set forth under §§ 90 (1) and 91 of the Copyright Act where it derives that the exhaustion of distribution right for databases and computer programmes is restricted to the first sale within the European Union only (compared to other copyright-protected works where exhaustion also takes place in case of the first sale in the contracting parties of EEA Agreement). Other digital works should be

¹ Explanatory text of 2 February 2014 to the draft of the new Copyright Act (presumably will enter into force in 2016).

governed by the same general principles as applicable for other kind of works, either tangible or intangible.

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

The exhaustion regime for digital works in general does not differ that for analogue works. See the answer to questions 7 and 9 above.

The exhaustion of right for databases and computer programmes is restricted with EU member states and does not include the contracting parties of EEA Agreement as these provisions are based on respective EU directives (directive 96/9/EC of the European Parliament and of the Council and directive 2009/24/EC of the European Parliament and of the Council) that are not applicable to the contracting parties of EEA Agreement.

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 Copyright Act does not provide that due to the exhaustion principle, copyright-protected works could be recycled or repair of goods could be carried out. The law provides exhaustion only regarding the distribution right – i.e. due to the exhaustion, the copies of the work may be further distributed in the Member States of the European Union or the states which are contracting parties of EEA Agreement without the consent of the author. Also, there is no case law regarding the expansion of the above-said regulation and allowing the reproduction or adaption etc. of the works before the resale of the copyright-protected works.

Currently valid law regulates the right to recycle and repair only regarding computer programmes and the latter has been enacted as a “free use” option under § 24 of the Copyright Act as follows:

§ 24. Free use of computer programs

(1) Unless otherwise prescribed by contract, the lawful user of a computer program may, without the authorisation of the author of the program and without payment of additional remuneration, reproduce, translate, adapt and transform the computer program in any other manner and reproduce the results obtained if this is necessary for:

1) the use of the program on the device or devices, to the extent and for the purposes for which the program was obtained;

2) the correction of errors present in the program.

(2) The lawful user of a computer program is entitled, without the authorisation of the author of the program or the legal successor of the author and without payment of additional remuneration, to make a back-up copy of the program provided that it is necessary for the use of the computer program, or to replace a lost or destroyed program or a program rendered unusable.

- 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?**

There is no practical need to make any changes. Also, the new legislative draft of the Copyright Act as referred under question 7 above does not provide any material changes to the exhaustion regime.

b) Which right(s) should be exhausted?

See the answer to question 12 a) above.

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

See the answer to question 12 a) above.

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?

It is our view that copyright should be exhausted after the first sale of a copy even if the sale is cancelled due to non-payment of the sales price or similar circumstances, except in cases the buyer was aware or should have been aware of the circumstances that will bring along the cancellation of the sale. In case the (final) buyer according to the property law can keep the tangible object, it would be reasonable that also the distribution right is considered to be terminated. This can be reasoned through the concept of legal certainty – third parties cannot be restricted in exercising the rights due to the circumstances unknown to them.

13) Should there be international exhaustion of copyrights?

We see no need for an international exhaustion of copyrights in Estonia.

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

Yes, there should be on-line exhaustion of downloaded copies.

Also, we are of the opinion that downloaded copies are not fully comparable with copies stored on tangible data media. This is mostly due to the fact that downloaded copies can be reproduced with relative ease and not much effort or cost after the first sale and then distributed among users/buyers from different parts of the world, whereas, the distribution of tangible goods is more easily controllable. Also, for the right-holder it is difficult to check whether the obligation to delete (or make unusable in some other way) the digital copy upon first sale (the principle established by the case law of the Court of Justice of the European Union, see the answer to question 7 above) is duly fulfilled.

15) If there should be on-line 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 "re-sellers" of digital copies be allowed to further re-sell such digital copies? Should multi-user-licences be split up and sold separately?

Even though copyright-protected works are not fully comparable with copies stored on tangible data media, the regulations in force in Estonia already extend to the copies in digital form. Together with guidelines from the CJEU, the current regulations seem to be sufficient (also, see the answer to question 7 above). However, unified approach within the European Union may be desirable.

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

We are of the view that there is no practical need for any changes in this matter.

- 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?**

Harmonisation (and the determination of the extent thereof) within the European Union may be reasonable.

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

The currently valid general harmonisation in the level of the European Union is sufficient. We are of the view that the exhaustion of rights as set forth in question 12 above (i.e. general exhaustion regime) should not be harmonised more widely. The harmonization of specific aspects may be reasonable as provided under question 17 above and questions 20 and 21 below.

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

We see no practical need for harmonised international exhaustion of rights.

- 20) Should on-line exhaustion of rights be harmonised? Please provide your reasons.**

We are of the view that on-line exhaustion of rights should be harmonised to a certain extent. As exhaustion of databases and computer programmes have already been independently regulated, then it would be as the next step to harmonise other forms of digital media across the European Union as well. International harmonisation is not needed.

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

Such harmonisation within the European Union may be reasonable.

SUMMARY

As Estonia is a member state of the EU, its copyright laws are closely connected to the general principles of EU's copyright law and the decisions of the CJEU also apply here. The Estonian Copyright Act thereby recognises regional exhaustion of the right of distribution of a copyrighted product within the Community, i.e. member states of the EU and, by extension, contracting parties to the EEA Agreement. The rental and lending rights have been excluded from this general principle of exhaustion.

The general principles of exhaustion in the Copyright Act do not make a distinction between tangible and non-tangible works and similarly apply to the distribution of digital works. As databases and computer programmes have already been separately regulated, some extent of harmonisation may be recommended for on-line exhaustion in general within the Community due to their distinct nature.

ZUSAMMENFASSUNG

Estland ist das Mitglied der EU und das estnische Urheberrecht ist eng ans entsprechende EU-Recht gebunden. Ebenso sind in Estland die Grundsätze der Entscheidungen des EuGH zu befolgen. Das estnische Urheberrecht erkennt die regionale Erschöpfung der Distribution der Urheberrechte, d. h. wenn der Erstverkauf des, mit dem Urheberrecht geschützten Produktes innerhalb der EU oder des EWR stattfindet. Die Miet- und Verleihrechte sind von diesem allgemeinen Grundsatz der Erschöpfung ausgeschlossen.

Das estnische Urheberrecht unterscheidet nicht zwischen physischen und digitalen Werken und folglich gilt für beide die gleiche Regelung. Da die Datenbanken und Computerprogramme teilweise schon jetzt gesondert geregelt sind, könnte die Harmonisierung aufgrund ihrer unterschiedlichen Natur auch für die Online-Erschöpfung innerhalb der Gemeinschaft empfohlen werden.

RÉSUMÉ

L'Estonie est un état membre de l'UE et ses lois de copyright sont étroitement liées aux principes généraux de loi de copyright de l'UE et les cours généralement suivent les instructions de la CJUE. La loi de copyright de L'Estonie ainsi reconnaît l'épuisement régional des droits de distribution d'un produit protégé dans la Communauté, c'est à dire dans les états membres de l'UE et les parties contractantes a l'accord sur l'EEE. Les droits de louer et de prêt on été exclus de ce principe général de l'épuisement.

Les principes généraux de l'épuisement de la loi de copyright ne fait pas de distinction entre les oeuvres matériels et immatérielles et s'appliquent d'une manière similaire à la distribution d'oeuvres numériques. Car les bases de données et des programmes informatiques ont déjà été réglementé séparément, l'harmonisation dans une certaine mesure peut recommander pour l'épuisement en ligne d'une manière générale dans la Communauté en raison de leur nature distincte.