

Question Q240

National Group: Japanese National Group

Title: **Exhaustion issues in copyright law**

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Questions

I. Current law and practice

The Groups are invited to answer the following questions under their national laws:

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.

(Answer):

Yes.

- (1) Cinematographic works

Article 26(1) of the Copyright Act: *The author of a cinematographic work shall have the exclusive right to distribute his work by distributing reproductions of said cinematographic work.*

Article 2(1)(xix) of the Copyright Act: *"distribution" means the transfer or rental of reproductions of a work to the public, whether with or without charge, and in the case of cinematographic works ..., "distribution" includes the transfer of ownership or rental of, reproductions of a cinematographic work for the purpose of making such cinematographic work itself or the works reproduced therein, as the case may be, available to the public.;*

(2) Works other than cinematographic works

Article 26-2(1) of the Copyright Act: *The author shall have the exclusive right to offer his work (with the exception of cinematographic works; ...) to the public by transferring ownership of the original or reproductions of his work ...*

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 authorization of the author? Is it recognised by statutory law or case law?

(Answer):

Yes.

The exhaustion of the right of transfer of ownership of copies to the public (part of the right of distribution of cinematographic works under Article 26(1) of the Copyright Act) is recognized by case law (Supreme Court judgment dated 25 April 2002, the *Used Game Software* case).

The exhaustion of the right of ownership transfer regarding works other than cinematographic works (Article 26-2(1) of the Copyright Act) is recognized by Article 26-2(2) of the Copyright Act.

- 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?

(Answer):

Exhaustion occurs for all kinds of works.

- 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?

(Answer):

The right of transfer of ownership of copies to the public (part of the right of distribution of cinematographic works under Article 26(1) of the Copyright Act) can be exhausted. Also, the right of ownership transfer regarding works other than cinematographic works (Article 26-2(1) of the Copyright Act) can be exhausted.

On the other hand, it is generally understood that the following rights cannot be exhausted: the right of reproduction (Article 21 of the Copyright Act), the right of rental of copies to the public (part of the right of distribution of cinematographic works under Article 26(1) of the Copyright Act), and the right of rental of works other than cinematographic works (Article 26-3 of the Copyright Act).

- 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?

(Answer):

The right of transfer of ownership of copies to the public (part of the right of distribution of cinematographic works under Article 26(1) of the Copyright Act) is exhausted "upon the lawful transfer of ownership" of "a copy of a cinematographic work..., the purpose of which is not to make them available to the public" (Supreme Court judgment, the *Used Game Software* case).

The right of ownership transfer regarding works other than cinematographic works (Article 26-2(1) of the Copyright Act) is exhausted: "upon transfer of ownership (of the original or a copy of the work) to the public by a person (entitled to the right) or a person authorized by the said person"; "upon transfer of ownership (of a copy of the

work) to the public following the ruling ... or the authorization by the Commissioner of the Cultural Affairs Agency; and "upon transfer of ownership (of the original or a copy of the work) to a small number of people of a specified group, by a person (entitled to the right) or a person authorized by the said person"; etc.

- d) If the right-holder 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?

(Answer):

If the copyright holder A terminates the sales agreement regarding the copy with B because of non-payment of the price by B to A, C (who purchased and received delivery of the said copy prior to the termination) may still acquire the right of ownership in the copy as a "third party" whose right "may not be prejudiced" by the termination, under the provisory clause of Article 545(1) of the Civil Code.

On the other hand, in such a case, A's ability to assert his/her copyright (in particular, the right of transfer of ownership of copies to the public (part of the right of distribution of cinematographic works under Article 26(1) of the Copyright Act) or the right of ownership transfer regarding works other than cinematographic works under Article 26-2(1) of the Copyright Act) against C depends on:

- (1) whether A's right to the copy has already been exhausted and, in particular, whether the "transfer of ownership" (which is a requirement for exhaustion, as mentioned above) needs to be effective in relation to the termination under the private law;
- (2) whether the status of C (under which C could have transferred the copy to the public before the termination) falls under the "right" of "a third party" within the meaning of the provisory clause of Article 545(1) of the Civil Code (the rights of whom, thereby, shall not be prejudiced by the termination); and/or
- (3) whether the limitation on the right of ownership transfer regarding works other

than cinematographic works (Article 26-2(1) of the Copyright Act) in relation to secondary transfer of the copy by a person who acquired the right of ownership in the copy by instant acquisition, which is provided in Article 113-2 of the Copyright Act, is applicable (or applicable *mutatis mutandis*).

In relation to the above, there is a lower court judgment regarding the right of transfer of ownership of copies to the public (part of the right of distribution of cinematographic works under Article 26(1) of the Copyright Act) (Tokyo District Court judgment dated 11 July 2012, Case No. 2010 (Wa) No.44305). In this judgment, the court held that the right mentioned in item (1) above had not been exhausted, that a party like C in item (2) above did not fall under "a third party" within the meaning of the provisory clause of Article 545(1) of the Civil Code, and allowed enforcement of the right. However, item (3) above could have also been an issue in this case.

As to item (3) above, the copyright holder A will not be able to assert his/her copyright to the copy against C, if the limitation on the right of ownership transfer regarding works other than cinematographic works (Article 26-2(1) of the Copyright Act) in relation to secondary transfer of the copy by a person who acquired the right of ownership in the copy by instant acquisition, which is provided in Article 113-2 of the Copyright Act, is applicable (or applicable *mutatis mutandis*).

- 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?

(Answer):

No.

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

(Answer):

It is generally understood that the exhaustion of rights may not be waived contractually.

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

(Answer):

With regard to the right of transfer of ownership of copies to the public (part of the right of distribution of cinematographic works under Article 26(1) of the Copyright Act), the rationale/justification for the exhaustion in practical terms is that the smooth distribution of products should be ensured in the market and that there is no need to allow a double benefit to copyright holders, according to the Supreme Court judgment on the *Used Game Software* case. The legal ground for the exhaustion is that the right is exhausted upon fulfillment of its purpose.

As to the right of ownership transfer regarding works other than cinematographic works (Article 26-2(1) of the Copyright Act), the rationale/justification for the exhaustion (Article 26-2(2) of the Copyright Act) is to ensure safety of transactions, according to the legislative intent regarding Article 26-2(2) of the Copyright Act.

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?

(Answer):

With regard to the right of ownership transfer regarding works other than cinematographic works, international exhaustion is recognized by statutory law (Article 26-2(2)(v) of the Copyright Act).

With regard to the right of distribution of cinematographic works, statutory law does not provide for international exhaustion. At present, we are not exactly sure whether the court will recognize international exhaustion of the right of distribution of cinematographic works. It cannot be said that it is recognized by case law.

When a copyright-protected work stored on a tangible medium (such as CD or DVD), which was lawfully made and distributed outside Japan, is imported to and sold in Japan, the ability of its copyright holder in Japan to assert his/her copyright against such a copy mainly depends on whether the said work is a cinematographic work. We

will discuss this topic in detail below.

Since a work stored on a CD is usually not a cinematographic work, international exhaustion of the right of ownership transfer may become an issue. As noted above, international exhaustion of the right of ownership transfer is recognized by statutory law (Article 26-2(2)(v) of the Copyright Act). Therefore, the copyright holder may not assert his/her copyright against a copy stored on a CD.

However, importation of a phonorecord (including a CD) is prohibited when conditions (1) through (5) shown below are met (Article 113(5) of the Copyright Act and Article 66 of the Order for Enforcement of the Copyright Act). Therefore, the copyright holder may assert his/her copyright against a work stored on the said phonorecord.

- (1) It is a commercial phonorecord, exclusively intended for distribution outside Japan and is identical to those put on sale in Japan;
- (2) Its importer knows the fact described in (1) above;
- (3) It is imported for the purpose of distribution in Japan;
- (4) Its circulation may unreasonably prejudice the anticipated interests of the right-holder; and
- (5) Four years have not passed since the record was put on sale for the first time in Japan.

If a work stored on a DVD is not a cinematographic work (e.g. photos, drawings, etc.), international exhaustion of the right of ownership transfer is applicable as in the case of a CD described above. Therefore, the copyright holder may not assert his/her copyright against a work stored on the said DVD.

However, if a work stored on a DVD is a cinematographic work, the possible result will be as follows:

There is a district court judgment in which the court ruled against a party who sold parallel-imported copies (video cassettes) of a theatrical film to the public, holding that such an act is subject to the right of distribution in Japan and, therefore, international exhaustion of the right does not apply (Tokyo District Court judgment dated 1 July 1994, Case No. 1993 (Wa) No.4948).

Later, however, the Supreme Court held in the *Used Game Software* case (although this was a case on national exhaustion) that, in case of transfer of ownership of a copy of a cinematographic work used for home video game machines, which is "not intended to be made available to the public" (in other words, does not presuppose a film distribution system), it is necessary to ensure the smooth distribution of products in the market, and the opportunity for the copyright holder to secure compensation is guaranteed when the copyright holder him/herself transfers ownership of his/her copyrighted work or its copy; for such reasons, "upon its lawful transfer of ownership, the copyright is exhausted because its purpose is fulfilled, and it can no longer be asserted against an act of further transfer of ownership of the copy to the public." Here, the Supreme Court held that in principle, copyright is exhausted regarding cinematographic works that are not intended to be made available to the public.

In another case (although this was also a case on national exhaustion), the Tokyo High Court referenced the Supreme Court judgment on the *Used Game Software* case and incorporated it in its own judgment, stating, "the video software in question is the same as home video game software in the sense that it is not intended to be made available to the public by presenting on a screen through a film distribution system. Moreover, from the viewpoint of the reasons (a), (b) and (c) mentioned in the Supreme Court judgment (e.g. the need to ensure the smooth distribution of products in the market, etc.), there is no difference from the case of home video game software" (Tokyo High Court judgment dated 28 November 2002, Case No. 2002 (Ne) No.1351).

Therefore, if a work stored on a DVD is a cinematographic work, it is likely that the copyright holder may not assert his/her copyright against a work stored on the said DVD.

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

(Answer):

According to the legislative intent of Article 26-2(2)(v) of the Copyright Act, which provides for international exhaustion, the rationale/justification is that increasingly large quantities of copyrightable works are widely distributed across the national border with the advance of economic globalization, and that it is reasonable to meet the need to ensure (1) smooth distribution and (2) safety of transactions, in the context of not only in

domestic but also international transactions.

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?

(Answer):

In this respect, we may consider the following three possible cases:

- (1) A party stores a downloaded copy on a tangible medium such as CD-R or HDD and transfers this medium to someone;
- (2) A party transmits a downloaded copy to someone; and
- (3) A party uploads a downloaded copy and makes it downloadable to one person.

As explained below, these three cases may involve the right of ownership transfer, the right of public transmission, the right to make transmittable, and/or the right of reproduction.

The right of ownership transfer, the right of public transmission, and the right to make transmittable are rights to make something available to the public (a large number or an unspecified group of people). If an ownership of a copy is transferred (Case (1)) or the copy is transmitted (Case (2)) to a small number and specified group of people (e.g. one of the friends, one of the existing business partners, etc.), such an act is not subject to the right of ownership transfer or the right of public transmission, and will be permitted without the need to discuss whether these rights are exhausted. Therefore, Cases (1) and (2) become an issue only when an ownership of the copy is transferred or the copy is transmitted, to an unspecified group of people. When a copy is uploaded in Case (3), it will become transmittable to an unspecified group of people and therefore, the right to make transmittable is always relevant. In the cases of transmission in Case (2) and download in Case (3), a copy will be created on the receiving end. Since the right of reproduction may be asserted even against an act of transmission from one person to another person, there is a question of whether the right of reproduction is exhausted.

In Case (1), the right of ownership transfer could become an issue, because an

ownership of a tangible medium containing a downloaded copy is transferred. However, since this copy was not obtained through transfer of ownership of a tangible "copy" but through download, Case (1) does not meet the statutory requirement for exhaustion, namely, lawful transfer of ownership of "the original or a copy of the work." Therefore, the right of transfer is not exhausted based on the statutory provision of the Copyright Act.

In this case, there is a question as to whether, as a matter of legal interpretation, the right of ownership transfer is exhausted when a party fixes a lawfully downloaded copy on a tangible medium and transfers its ownership to someone.

In Cases (2) and (3), transmission of the work to another person or download by another person is enabled. Under the Copyright Act of Japan, the right of ownership transfer is a right to transfer the ownership of the original or a copy of the work as a tangible object. The acts in Cases (2) and (3), which do not involve transfer of an ownership of a copy, are not subject to the right of ownership transfer. Rather, these acts are subject to the right of public transmission and the right to make transmittable. Also, the right of reproduction is relevant, because a copy is created on the receiving end.

Therefore, in these two cases, there is a question as to whether, as a matter of legal interpretation, the right of public transmission, the right to make transmittable, and/or the right of reproduction is exhausted when a party fixes a lawfully downloaded copy on a tangible medium and then transmits it, makes it transmittable or reproduces it.

In the Supreme Court judgment on the *Used Game Software* case, one of the reasons for which the court adopted a legal interpretation that the right of distribution is exhausted is as follows (see paragraph 17 of the Working Guidelines Q240):

"In general, in cases of transfer of ownership of products, the transferor transfers the rights in relation to the products to the transferee and the transferee acquires the rights which belonged to the transferor. In cases where a copyrighted work or its duplicate is placed in the market for distribution, the transaction is effected with the presupposition that the transferee acquires the right to re-transfer the products freely. If each transfer of ownership of the product or its duplicate requires the consent of the copyright holder every time, this would inhibit the free distribution of

the products in the market."

Here, the Supreme Court found that, when the "products" are tangible objects, "the transaction is effected with the presupposition that the transferee acquires the right to re-transfer the products freely." On the other hand, if someone obtains a work through download, the above presupposition does not seem to hold true for any types of copyright, at least under present social conditions.

Therefore, in all of Cases (1) through (3), we believe that, with regard to a downloaded copy, exhaustion of the right of ownership transfer, the right of reproduction, right of public transmission, or the right to make transmittable will not apply, regardless of types of works.

- 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?

(Answer):

In *UsedSoft v. Oracle*, the court held that ownership of a downloaded copy of a program may be transferred to the user under certain conditions.

However, such a legal interpretation is not adopted under Japanese law. There is a clear distinction between grant of a license to use a work and the transfer (of ownership) of a copy of the work, and it is generally understood that transfer of ownership will not occur based on grant of a license. Therefore, if we take the position that exhaustion does not occur with regard to a downloaded data, as mentioned in our answer to Question 7) above, the rights will not be exhausted in a perpetual license, let alone a non-perpetual license. Under the circumstances described in *UsedSoft v. Oracle*, the right of reproduction, the right of ownership transfer, etc. continues to exist without being exhausted. As in the case of the *ReDigi* case in the United States (paragraph 37 of the Working Guidelines Q240), creation of a new copy at the forwarding destination may infringe the right of reproduction, etc. even if the re-seller deletes his/her copy at the time of transfer.

Since the rights are not exhausted, the possibility of splitting up and selling separately multi-user licenses depends on the license agreement with the copyright holder. If the

act of splitting up the licenses and selling them separately is prohibited under the license agreement, the act of purchasing one of the split licenses and creating a copy of the program is an act of unauthorized reproduction and therefore is an infringement of the right of reproduction, etc.

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

(Answer):

The Copyright Act of Japan does not provide for exhaustion of the copyright for downloaded works at all. Under the Copyright Act, there is no distinction for each type of work, nor is there a need for such a distinction.

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

(Answer):

There is no such distinction.

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?

(Answer):

- (1) As to the right of reproduction, to the present, the Supreme Court has not ruled on to what extent one may recycle or repair goods that are copyright-protected works.

In relation to patent rights, however, the Supreme Court held:

"...exhaustion operates to limit the enforcement of a patent right only for the specific patented article itself transferred by the patentee, etc. in Japan. Therefore, when a patented article that was transferred in Japan by the

patentee, etc. is modified or its parts are replaced, and because of this modification or replacement, a new patented article that is not the same as the original patented article is produced, the patentee should be permitted to enforce the patent right with respect to the new patented article,"

and that the following factors should be taken into consideration:

"...in order to determine whether a patented article was newly produced, it is appropriate to consider the totality of the circumstances including the attributes of the patented article, the content of the patented invention, the manner in which the article was modified or its parts were replaced, as well as the actual conditions of the commercial transaction, etc. The attributes of the patented article should include the article's functions, structure and materials, intended uses, lifespan, and the manner in which it is used. The manner in which the article was modified or its parts were replaced should include the state of the patented article when it was modified, the nature and degree of the modification, etc., the lifespan of the replaced parts, and the technical function and economic value of those parts within the patented article."

(Supreme Court judgment dated 8 November 2007, the *Ink Cartridge* case).

If we adopt the same position as the Supreme Court judgment above, one may, in relation to the right of reproduction, recycle or repair goods that are copyright-protected works to the extent that such an act is not comparable to reproduction (taking into account the factors mentioned in the Supreme Court judgment above).

- (2) As to the right of adaptation and the right of musical arrangement, an adaptation and a musical arrangement mean "the act of creating a separate work that is based on an existing work, and, whilst preserving the same essential characteristics of the existing work's form of expression, that modifies, adds to or subtracts from or alters its specific expression, and expresses new thoughts or sentiments in a creative manner, so that persons exposed to this can directly perceive the essential characteristics of the existing work's form of expression." (Supreme Court judgment dated 28 June 2001, the *Esashi Oiwake* case). Concerning the right of musical arrangement, there is a judgment by the Tokyo High Court (dated 6

September 2002, the *Dokomademo Ikou* case). As long as one recycles or repairs goods that are copyright-protected works in a manner that does not express new thoughts or sentiments in a creative manner, there would not be a problem related to the right of adaptation or the right of musical arrangement (although there may be a problem related to the right of reproduction).

- (3) In relation to the right to maintain integrity, the Copyright Act provides: *The author shall have the right to maintain the integrity of his work and its title, and no distortion, mutilation or other modification thereof shall be made against his intent* (Article 20(1) of the Copyright Act).

However, certain modifications are permitted under statutory provisions: modifications of an architectural work by means of extension, etc. (Article 20(2)(ii) of the Copyright Act); modifications needed for use of a computer program (Article 20(2)(iii) of the Copyright Act); and modifications that are considered unavoidable in light of the nature of a work as well as the purpose of and the manner of its exploitation (Article 20(2)(iv) of the Copyright Act). Within these allowable limits, one may recycle or repair goods that are copyright-protected works.

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?

(Answer):

It shall occur for all kinds of works.

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

(Answer):

The right of ownership transfer (the right to offer a work to the public by transferring ownership of the original or copies of the work) should be exhausted. In other words, if the first transfer of ownership of a work is made lawfully, enforcement of

the copyright should not be permitted against subsequent transfer of ownership of the said work.

However, the right of rental (the right to offer a work to the public through the rental of copies of the work) should not be exhausted. In other words, even if the first transfer of ownership of a work is made lawfully, enforcement of the copyright should be permitted against subsequent rental of the said work.

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

(Answer):

Exhaustion of rights should require that the first transfer of ownership of the original or a copy of the work be made lawfully.

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?

(Answer):

This should depend on whether the situation may give rise to transfer of ownership of the work or not, under the contract law, the movable property law, or other relevant law. For example, the copyright holder A sells his/her work to B, B sells it to C, and thereafter A terminates the transaction between A and B because of non-payment of the price by B to A. If ownership of the work is transferred to C despite the termination, the copyright should be exhausted.

International exhaustion (specific issue 1)

13) Should there be international exhaustion of copyrights?

(Answer):

Yes.

On-line exhaustion (specific issue 2)

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?

(Answer):

There should not be exhaustion regarding downloaded copies. Downloaded copies should be treated differently from copies stored on tangible data media.

- 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?

(Answer):

As mentioned above, there should not be exhaustion regarding downloaded copies in the first place.

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

(Answer):

Such a distinction should not be made.

Exhaustion of copyright-protected works in 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?

(Answer):

It is not easy to specify the allowable limits. At least, however, media conversion of works (e.g. from VHS to DVD) should be permitted, to the extent that the following three-step test (provided in Article 9(2) of the Berne Convention) is met: (1) it is in certain special cases; (2) provided that it does not conflict with a normal exploitation of the work; and (3) it does not unreasonably prejudice the legitimate interests of the author.

III. Proposals for harmonization

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

(Answer):

In an internationally harmonized manner, there should be *national* exhaustion of the right of transfer of ownership when the work is a tangible object. To this extent, we believe that opponents of the exhaustion of copyrights are few and that it is not so difficult to reach a consensus among the countries.

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

(Answer):

Harmonization is not necessary.

The copyright-related international conventions/treaties do not provide for any direction regarding international exhaustion. Currently, there is great difference among the countries in their approach to the question of whether international exhaustion should be recognized or not. Under these circumstances, it is not practical to try to reach a consensus regarding this question among the countries. On the contrary, it seems desirable to keep the status quo so and allow each country to freely decide on approaches to the question of international exhaustion from the viewpoint of cultural protection, etc.

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

(Answer):

In an internationally harmonized manner, on-line exhaustion of rights should not be recognized. Although the decision on the case of *UsedSoft v. Oracle* is interesting, we believe it is still a minority opinion.

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

(Answer):

In an internationally harmonized manner, media conversion of works should be permitted, to the extent that the three-step test (under Article 9(2) of the Berne Convention) is met. To this extent, it seems not difficult to reach a consensus among the countries.

With regard to Questions 18 through 21, if you note that harmonisation is desirable, we will assume that harmonisation should be as your proposals for improvements of the current law as described in your answers to Questions 12 through 17. If that is not the case, please explain.

(Answer):

Your assumption is correct. We do not think, however, harmonization is necessary with regard to international exhaustion, as described above.

Summary

Right of Distribution

The Copyright Act of Japan has statutory provisions regarding the right of ownership transfer, which is a right to offer his/her work to the public by transferring ownership of the original or copies of his/her work. Article 26(1) of the Copyright Act sets forth the right of ownership transfer regarding cinematographic works, while Article 26-2(1) of the Copyright Act sets forth the right of ownership transfer regarding works other than cinematographic works.

Exhaustion of Copyrighted Works (in General)

Exhaustion of the right of ownership transfer regarding cinematographic works is recognized by case law, namely, the Supreme Court judgment on the Used Game Software case. On the other hand, exhaustion of the right of ownership transfer regarding other works is recognized by Article 26-2(2) of the Copyright Act.

Exhaustion occurs for all kinds of works. In the meantime, it is generally understood that only the right of ownership transfer is subject to exhaustion, and that other rights (such as the right of reproduction and the right of rental) may not be exhausted.

The requirement for exhaustion is the lawful transfer of ownership of the original or copies of the work.

There is a question as to whether or not the copyright holder A is able to assert his/her right against C, where the copyright holder A sold a copy to B, B sold the copy to C, and then A terminated the sales agreement between A and B due to non-payment by B. The conclusion would depend on: (1) whether A's right has been exhausted; (2) whether C is protected under the provisory clause of Article 545(1) of the Civil Code, which provides that termination of a contract may not prejudice third party's right; and (3) whether C is protected under Article 113-2 of the Copyright Act, which protects a person who acquired ownership of a work by instant acquisition. There is a lower court judgment that denied (1) and (2) and allowed enforcement of the right; however, the court did not look into the issue of (3) in that case.

It is generally understood that exhaustion may not be waived contractually.

International Exhaustion

Regarding works other than cinematographic works, the Copyright Act has a statutory provision that recognizes international exhaustion. However, there is an exception regarding phonorecords (including CDs), under which importation of a phonorecord into Japan is deemed copyright infringement under certain conditions (e.g., an identical phonorecord is put into sale in Japan, and four years have not yet passed since then) (Article 113(5) of the Copyright Act).

There is no case law on international exhaustion regarding cinematographic works (after the Supreme Court judgment on the Used Game Software case). However, in light of relevant case law, it is likely that a court would recognize international exhaustion regarding cinematographic works as well.

Online Exhaustion

The Copyright Act does not have a statutory provision regarding exhaustion regarding downloaded copies.

It is possible to think of three cases that involve online exhaustion: (1) a case in which a party stores a downloaded copy on a tangible medium such as CD-R or HDD and transfers this medium to someone; (2) a case in which a party transmits a downloaded copy to someone; and (3) a case in which a party uploads a downloaded copy and makes it downloadable to one person. Rights such as the right of ownership transfer, the right of reproduction, the right of public transmission and the right to make transmittable, are likely to be relevant to these cases. However, we believe that exhaustion would not apply in any of these cases.

Since online exhaustion is not likely to be recognized, whether or not it is possible to split up a multi-user-license would depend on the license agreement.

Exhaustion in case of Recycling and Repair of Goods

As to the right of reproduction, if we adopt the same position as the Supreme Court judgment on the Ink Cartridge case, one may, in relation to the right of reproduction, recycle or repair goods that are copyright-protected works to the extent that such an act is not comparable to reproduction.

As to the right of adaptation and/or musical arrangement, as long as one recycles or repairs goods in a manner that does not express new thoughts or sentiments in a creative manner, there would not be a problem related to these rights.

As to the right to maintain integrity, certain modifications are permitted under statutory provisions of the Copyright Act, such as: modifications of an architectural work by means of extension, modifications needed for use of a computer program, and modifications that are considered unavoidable in light of the nature of a work as well as the purpose of and the manner of its exploitation. Within these allowable limits, one may recycle or repair goods that are copyright-protected works.