ECPA Expert

Evangelical Christian Publishers Association

Legal Update from Brian Flagler

Brian Flagler
Managing Partner,
Flagler Law Group LLC
Specializing in intellectual property and transactions for publishers, designers, producers, and distributors of Christian media
Attorney, ECPA Publishers Legal Hotline

Former legal experience includes:
General Counsel, Multnomah Publishers, Inc.
Davis Wright Tremaine LLP, Portland
Troutman Sanders LLP, Atlanta
Adjunct instructor of Intellectual Property Law, Clayton College & State University
Juris Doctor, University of Virginia School of Law

July 2012

Consumers in Europe Gain Right to Resell Digital Downloads; Implications if U.S. Follows Suit

By Brian Flagler and Craig Gipson

The legal picture of whether consumers may resell ebooks is beginning to slowly come into focus. The European Union Court of Justice (the E.U. equivalent of the U.S. Supreme Court) issued an opinion on July 3 that sent shock waves through the software industry and may reverberate into ebooks and digital music. (1) The Court found that customers may resell downloadable software licenses, even when terms specify the personal and non-transferable nature of the license.

A License is a Sale

California-based software giant Oracle filed suit against the German company UsedSoft for creating a marketplace where consumers could resell software licenses. Oracle argued that its software was subject to a license limiting use to the original consumer and prohibiting transfer to a third party. The court disagreed, finding that "a computer program or a copy of such a program must be regarded as being sold . . . where the transaction, however it may have been described by the parties, involves the transfer of ownership of a copy of the computer program, for an unlimited period of time, in return for the payment of a one-off fee."

The Court's opinion treats software in the E.U. like print books and CDs are treated in the U.S. under the "first sale" doctrine. Even when the parties describe the software transaction as a license, legally that transaction is now a sale: the original distributor may profit from the initial sale but has no control over downstream distribution. The case does not apply directly to ebooks now, but the similarities are difficult to ignore. A license to an ebook, sold to a customer for an unlimited period of time in return for the payment of a one-off fee, could be argued as analogous to the software transfer at issue in the Oracle case. If an online marketplace develops in the E.U. allowing customers to resell ebooks purchased under license terms, publishers may have to rely solely on DRM as the legal means to stop redistribution. Some commentators speculate that the opinion may lead to the acceleration of cloud-based product offerings. (2) Because customers do not own licenses to software (or ebooks) delivered through the cloud, companies may sell access to software without transferring any right to the customer, thereby maintaining the right to stop downstream resale.

Ebook Impact at Home and Abroad

The impact in Europe may be immediate. Depending on how the case is interpreted, an ebook transaction in the E.U. described as a license by the terms of the agreement may now be a sale. A customer would then have the right to read the ebook and legally sell it to a third party,

just as the customer could do with a print book. This may encourage publishers in Europe to apply DRM to all titles. If license terms cannot protect an ebook from downstream distribution, European copyright laws prohibiting tampering with anti-circumvention technological measures may provide a better alternative. (3)

In the U.S., the legal status of ebook transactions is not as clear, although a current case may soon provide clarity. In January 2012, Capitol Records filed suit against internet music startup Redigi. (4) Founded in 2009, Redigi established what it claims is the first legal method to resell digital music files purchased on iTunes. (5) The decision in the Redigi case may well establish precedent for the legal future of digital works in the U.S.

The Redigi case is scheduled for trial in the fall of 2012, although subsequent appeals may drag on for more than a year. With the uncertainty of whether U.S. law will follow the European decision, publishers may want to consider selling ebooks under a legally enforceable DRM regimen until the courts better develop the legal status of digital transmissions. We will continue to track these issues in future Legal Updates.

For publishers interested in more information regarding the potential role of DRM and DRM alternatives in prohibiting downstream resale, Flagler Law Group is forming a more detailed analysis of this issue for a group of the firm's publishing clients. Publishers interested to learn more about this project may contact brian@flaglerlawgroup.com.

(1) Case C-128/98, *Axel W. Bierbach v. Oracle Int'l Corp*., (2012).
(2) Ray Wang, *UsedSoft vs. Oracle Ruling Opens Up Monopolistic Practices by Software Vendors*, Forbes, http://www.forbes.com/sites/raywang/2012/07/04/news-analysis-usedsoft-vs-oracle-ruling-opens-up-monopolistic-practices-by-software-vendors/, July 4, 2012.
(3) Directive 2001/29/EC OJ L 167, p. 10 of 22.6.2001.
(4) *Capitol Records, LLC v. Redigi, Inc.,* No. 1:12-cv-00095-RJS (S.D.N.Y. filed Jan. 6, 2012).
(5) As of July 2012, Redigi only allowed resale of iTunes-purchased digital music because, in Redigi's view, Apple's terms of use do not prohibit transfer to a third party.

ECPA

www.ecpa.org
info@ecpa.org