The reselling of second hand e-books allowed in the Netherlands

The Amsterdam district court has refused an interim relief order to close the online second hand e-book store Tom Kabinet; the judgment goes against recent foreign judgments ruling that the online offering of works, other than software, does not lead to the exhaustion of rights.

Tom Kabinet offers a platform enabling users to legally resell used e-books, both DRM-free and e-books protected by digital watermarks (but not e-books encumbered by Adobe DRM). The Tom Kabinet website does not sell the e-books directly but instead acts as a facilitator between the purchaser and seller, handling both the payment processing (for a fee) and the transfer of the e-book file to the purchaser. Sellers have to declare that they obtained their copies legally and agree to delete their versions when a sale is made. While Tom Kabinet has no way to verify whether a copy is legal or whether copies were deleted by the seller, it does add a new watermark (Booxtream) to the e-book before it is sold in order to track down possible illegal distribution.

Tom Kabinet opened its platform a few weeks ago, basing its legality on the 2012 *UsedSoft* decision by the Court of Justice of the European Union ('CJEU'), CJEU 3 July 2012, C-128/11, *UsedSoft v. Oracle*. Although the *UsedSoft* case concerned the resale of licences for downloadable software, Tom Kabinet contended that the CJEU's ruling in favour of resale extends to digital media such as e-books.

The site was in operation for a week when a writ of summons in interim relief proceedings was served from the Groep Algemene Uitgevers and the Nederlands Uitgeversverbond, two Dutch publishers associations. In brief, the claimants requested the Amsterdam district court to order Tom Kabinet to cease the alleged infringement on the rights of the claimants and their authors by offering and/or reselling e-books. The claimants argued that Tom Kabinet disturbs the fragile balance on the e-books market, a market which faces large-scale piracy and illegal trade. It was stated that Tom Kabinet uses the 'one copy, one use' principle; however it could not guarantee that the seller of an e-books deletes their copy. In addition, it was stated that the watermark added by Tom Kabinet to the sold e-book could not prevent illegal copies of e-books being offered on its platform, as a result of which Tom Kabinet could not guarantee the lawfulness of the offered copies. Furthermore, the claimants stated that Tom Kabinet stimulates piracy by only requiring minimal personal data of its users, which makes it impossible to identify parties responsible if illegal e-books are traded. The claimants contended that the *UsedSoft* decision is limited to software, which falls within the scope of the Software Directive (Directive 91/250/EEC of 14 May 1991) while e-books fall within the scope of the Copyright Directive (Directive 2001/29/EC of 22 May 2001).

The legal notice was inspired in part by a letter that Tom Kabinet had sent to publishers on the day it started its platform. In that letter Tom Kabinet explained how the site works and noted that the site earned a 10% commission on e-books sold there. In addition, Tom Kabinet stated that its platform contained a 'Friends of Tom' program that would compensate authors and publishers for the second hand sale of their books via a 'donation' of 5% royalty to authors participating in the Friends of Tom program for each e-book sold in Tom Kabinet's marketplace. In return, authors should offer limited editions of every new publication quickly after its release for users of Tom Kabinet. Tom Kabinet invited publishers to negotiate participation in its suggestion of including the authors in its Friends of Tom program.

Interim relief proceedings

Believing Tom Kabinet to be illegal, the publishers either declined or ignored the offer and instead responded with a notice of interim relief proceedings, which took place on 10 July 2014. The judgment was published on 21 July 2014. The judgment begins with criticism of the claimants on the grounds that they did not enter into negotiations with Tom Kabinet, as the interim relief judge finds it sufficiently clear that Tom Kabinet showed good intentions, which could not be equated with 'piracy websites.' After all, Tom Kabinet invited publishers to work together and aims to mitigate the problem of illegally downloaded e-books. In respect of the claimants' allegations that Tom Kabinet infringes copyrights or wrongful acts in other respects, the interim relief judge ruled on the scope of the *UsedSoft* decision.

Both parties disagreed on the scope of the *UsedSoft* decision. In brief, Tom Kabinet argued that the *UsedSoft* decision extends to digital media such as e-books as well, while the claimants pointed at the following differences, which - according to claimants - should be decisive: a) *UsedSoft* concerned the 'sale' of software, regulated by the Software Directive, while Tom Kabinet enables the sale of e-books, regulated by the Copyright Directive; b) *UsedSoft* concerned 'sale,' which allegedly is not the case with *Tom Kabinet*; c) In *UsedSoft* the entitled party had received a fair compensation, while allegedly that had not happened in *Tom Kabinet*; d) In *UsedSoft* the CJEU ruled that in relation to the use of the software, a legal exception in respect of reproduction rights was applicable, which does not exist for e-books; e) In *UsedSoft* the CJEU had taken as a starting point that Oracle could verify the rightful use of the 'second hand' purchaser, which allegedly is not the case with *Tom Kabinet*; and f) In *UsedSoft* there

was no doubt about the rightfulness of the software, while that had to be doubted in *Tom Kabinet*.

UsedSoft considerations

The interim relief judge considers that the *UsedSoft* decision concerned the reselling of software, which is protected under the Software Directive, a *lex specialis* of the Copyright Directive. The interim relief judge takes the view that it cannot be excluded that the *UsedSoft* decision has a broader meaning and should not be limited to software as (i) the CJEU considered that the definitions used in both directives should essentially have a similar meaning; and (ii) does not explicitly answer the question of whether the exhaustion of distribution rights as set out in Article 4(2) of the Copyright Directive and considerations 28 and 29 of the Copyright Directive, should be limited to tangible assets. Furthermore, in Dutch literature it is argued that it cannot be excluded that the CJEU intends to expand digital exhaustion of rights to all copyright protected works, which would require a different interpretation of consideration 29 of the Copyright Directive. This would imply that the *UsedSoft* decision can be of interest to the reselling of other digital content, although the CJEU refers to the applicable exception of Article 5(1) of the Software Directive. In this respect the interim relief judge indicates that the CJEU attaches great weight to the economic similarity of the distribution of tangible and non-tangible carriers and that "the objective of the principle of the exhaustion of the right of distribution of works protected by copyright is, in order to avoid partitioning of markets, to limit restrictions of the distribution of those works to what is necessary to safeguard the specific subject-matter of the intellectual property concerned" (consideration 62, and case C-200/96 *Metronome Musik* [1998] ECR I-1953, paragraph 14; case C-61/97 FDV [1998] ECR I-5171, paragraph 13; and *Football Association Premier League and Others*, paragraph 106).

According to the interim relief judge, the purpose of the rule of exhaustion should be taken into account. Therefore, it is of interest if the entitled party has had the opportunity to commercialise the economic value of its right. In this respect Tom Kabinet argued that it cannot be excluded that the *UsedSoft* decision does not apply to purchasing e-books via online stores and that a purchaser is not bound by any restriction of use. However, if it is assumed that the *UsedSoft* decision applies nonetheless, it could according to the interim relief judge be argued that ownership is acquired, although the second hand e-book has not been obtained directly from the seller's server. The interim relief judge states that, in addition, it could also be argued that a reasonable payment has been received at the point of the first sale of the e-book, as the price of an e-book is almost equal to the price of a paper book.

In respect of the differences listed under (e)-(f), the interim relief judge stated that Tom Kabinet aimed to facilitate a legal second hand e-books market and has taken protective measures to achieve this, which is in compliance with the obligations of a distributor set out in *UsedSoft*. The interim relief judges noted that further protective measures could not be implemented as the cooperation of publishers was needed, which had been refused.

Judgment

The interim relief judge ruled that Tom Kabinet had taken a sustainable point of view. From the arguments of both parties as well as Dutch legal literature it cannot be excluded that the scope of *UsedSoft* extends to the sale of e-books. The interim relief judge suggests that the claimants should start legal proceedings on the merits in which preliminary questions on this issue could be referred to the CJEU. Given that the scope of the *UsedSoft* decision is unclear and the claimants demonstrated that they are not willing to negotiate with Tom Kabinet, the interim relief judge denied the claimants' requests.

Conclusion

Further to *UsedSoft* this interim relief decision effectively creates a second hand market for all digital content in the Netherlands. However, the judgment contains an important qualification that should be borne in mind by resellers and parties facilitating the resale, i.e. the protective measures to prevent illegal trade. A lot of emphasis was placed on the fact that Tom Kabinet adds a new watermark to the e-book after it has been purchased in an attempt to prevent trade in illegal copies. Although this may not be sufficient to prevent all illegal trade, the interim relief judge considered that further protective measures could not have been implemented without cooperation of the publishers. Moreover, the interim relief judge was clear that the behaviour of the publishers, by not replying to the invitation to discuss participation but instead initiating interim relief proceedings, was a step too far given the good intentions of Tom Kabinet.

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