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Exhaustion issues in copyright law (Q 240)

REPORT OF SWISS GROUP*

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.**

Swiss copyright law recognises the right of distribution within the meaning of Article 6, paragraph (1) WCT.

According to Article 10 (2) (b) Federal Copyright Act ("CA"), the rightholder¹ enjoys the exclusive right to offer for sale, sell or otherwise distribute copies of the work. In principle, this exclusive right relates to any act of offering or putting copies of the work into circulation, either in tangible form/on a tangible media or as electronic copies through the Internet (see Question 7 below).

Furthermore, under Swiss law no distinction is made between acts of distribution in return for consideration (sale, barter) and those that are not for consideration (gifts, donations).

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?**

Switzerland recognises the exhaustion of copyright in copyright-protected works after the first transfer of the work has taken place with the authorisation of the rightholder. This principle is recognised by statutory law.

Article 12 (1) CA states that where the rightholder has transferred a copy of the work or has consented to such a transfer, this copy of the work may subsequently be further transferred or otherwise distributed.

- 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?

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¹ The author and his/her assignee collectively the "rightholder".

i) *General rule*

As a general rule, the exhaustion of copyright occurs for all kinds of works uniformly, with three notable exceptions:

ii) *Computer Programs*

According to Art. 12 (2) CA, through the sale of computer programs, only the rights of use and of redistribution are exhausted, but not the right of lending or renting-out a copy of the program, which right remains with the rightholder (cf. Art. 12 [2] CA).

The right to use the computer program relates to the intended use of the program and comprises the loading, displaying, running, transmitting and storing and the producing of copies of the program as required within those activities and also the right of observing the functioning of the program, examining and testing of the same for the purpose of determining the ideas and principles underlying the elements of the program, provided this is done in the context of actions that form part of the intended use of the program (Art. 17 Copyright Ordinance). As regards the right to repairs and reverse engineering, see below at Question 11 (i).

iii) *Audio-Visual Works*

A further special rule (Article 12 [1^{bis}]CA) applies to copies of audio-visual works (films, but not e.g. computer games), which cannot be further transferred or rented for as long as the author would thereby be impaired in exploiting the right of performance within the meaning of Article 10 (2) lit. c CA. Such impairment is deemed to occur if the reselling or renting out of a movie competes with the showing of the movie in cinemas. After the primary cinema showing period, this exception to the rule of exhaustion lapses and exhaustion occurs in Switzerland irrespective of whether the copy of the film has been sold or distributed within or outside Switzerland, provided this has been done with the consent of the author. The aim of this provision is to protect the exploitation of movies in cinemas.

iv) *Works of Architecture*

Works of architecture that have been constructed may be further transferred, and also altered by the proprietor (Art. 12 [3] CA) within the limitations of the moral rights of the architect (Art. 11 [2] CA).

v) *Point of Discussion*

In addition, a point of discussion lies in the question of whether the notion of “copy of a work” implies only copies on tangible media or if intangible copies are also included. Whereas in the past it was assumed that the principle of exhaustion would only refer to tangible copies of a work, some Swiss courts and many legal authors nowadays are of the opinion that the electronic transmission of data has to be considered a transfer in the sense of Article 12 CA in case the result of the distribution is a copy of the work. However, the effect of exhaustion would be restricted to this copy of the work. Reference is made to Question 7 below.

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?

Exhaustion applies to the right of further distribution. If the copy of a work was transferred once, this very copy may not only be transferred again, but also otherwise distributed, i.e. it may also be exhibited, lent out, or rented, since the CA does not grant the author an exclusive right of distribution, lending or renting, whereby the copy may be rented out by any owner of that copy only against payment of compensation to the original rightholder.

Switzerland does not apply the “droit de suite” (Folgerecht), according to which fine artists and artists who sell their works are involved in the yield increases later achieved in resales. Therefore in this re-

spect the Swiss regulation does not correspond to the “acquis communautaire” of the European Community, where the “droit de suite” is binding for all member states.

The exhaustion does not apply to the other aspects of copyright. In particular the moral rights (Article 9, 11 CA), the reserved forms of the use of the work (Article 10 CA, namely the right of reproduction, the right of recital, performance and presentation, the right to broadcast and rebroadcast, the right to make perceivable works which were made accessible, broadcasted or rebroadcasted) other than the right to distribute that copy of the work (Article 10 [1] lit. c CA) and the right of modification of a work (Article 11 CA) are excluded from exhaustion. Consequently, a sold book that contains a poem shall not be read aloud in public, a theatre piece contained in a sold book shall not be performed before a public audience, or a music CD shall not be copied (except if temporary copies are necessary for listening) without consent of the rightholder.

The right to remuneration for renting-out a copy of a work is not subject to exhaustion, i.e., the rightholder remains entitled to remuneration if a copy of the work is rented out by the acquirer (Art. 13 [1] CA).

With regard to computer programs, only the rights of use and of re-distribution are exhausted, but not e.g. the rights of further processing and further development of computer programs, and also not the right of renting-out a copy of the program, which in case of computer programs remains with the rightholder (cf. Art. 12 [2] CA).

Works of architecture that have been constructed may be further transferred, and also altered by the proprietor (see above Question 3, lit. a).

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?

Exhaustion takes place once the respective copy of the work has been transferred in the sense of having (physically or otherwise) left the control of the previous owner and passed into the control of the acquirer. The acquirer has to take possession (control) of the copy of the work. This may include situations where the acquirer, not the previous owner, creates the relevant copy, provided the previous owner does not retain control over his copy.

Exhaustion is triggered by any form of such transfer, irrespective of the contract that forms the legal basis of the transfer, e.g., also in case of a license or leasing contract, where the right to use the copy is not limited in time (or the time corresponds to the expected life time of the copy), there is no duty to return the copy after the period of the permitted use, and the consideration is paid up front as a lump-sum independently of the duration and degree of use. Limitations of the permitted use may have a contractual and copyright-restricting aspect, but do not per se exclude exhaustion. On the other hand, on-going maintenance obligations of the rightholder, payments per year of use, the right to install the program on additional stations or to deinstall it from any stations with the effect of increasing or decreasing payments to the rightholder, and a duty to return or destroy all copies upon expiry of the contract mitigate against exhaustion of copyright.

Exhaustion depends on the lawful acquisition of the copy from the rightholder at the place where the acquisition takes place, even if that rightholder does not have any distribution rights in Switzerland. The acquirer has to prove the lawfulness of the acquisition. The acquisition can take place in the form of a combined product that includes hardware and software components.

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?

Exhaustion takes place once the respective copy of the work has physically left the control of the previous owner A and passed into the control of the acquirer B without pre-agreed obligation to return it. Correspondingly the acquirer B has to take possession (control) of the copy of the work with the understanding that he or she has no obligation to return it. If the sales agreement is later avoided (be-

cause ownership has not yet passed and the seller A falls into bankruptcy, or because the seller A revokes the sale because of mistake, non-payment of the purchase price or similar reasons), this remains without impact on the exhaustion of copyright, i.e. the acquirer B may violate his or her contractual obligation to return the copy, but he or she can re-sell the copy to C, so that C can enjoy the copyrighted work within the limitations of private use and sell it further without violation of copyright.

Whether the acquirer C becomes the legal owner of the tangible copy is a question of the right of property in chattel, not of copyright. In principle, the good faith acquirer C acquires ownership in the copy (Art. 933 Swiss Civil Code ["CC"]). If the copy was stolen by B, however, no exhaustion takes place and C cannot directly acquire ownership in the copy (except under very limited circumstances), but A can reclaim ownership within 5 years after the sale (Art. 933 together with Art. 714 CC).

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?

As mentioned at Question 3, lit. a (iii), Article 12 (1^{bis}) CA contains a special rule for copies of audiovisual works. Even if they are sold with the authorisation of the rightholder, they cannot be re-sold or rented out for as long as the rightholder is thereby impaired in the exercise of his or her right of performance. However, the prohibition lapses and the distribution rights are exhausted after the primary cinema release period.

Furthermore, as mentioned at Question 3, lit. a (ii), for computer programs the exhaustion of rights occurs, but with a limited material scope in that the buyer has only a right of transfer, but no right of lending and renting of copies. Article 12 (2) CA states also that, besides the exhaustion of the right of distribution, the buyer also has the right to use the computer program (Article 17 Copyright Ordinance).

As mentioned at Question 3., lit. a (iv), Article 12 (3) CA contains a special rule for works of architecture insofar as the exhaustion of rights is extended to a certain extent. It states that in case architectural works have been constructed, they may be altered by the proprietor subject to Article 11 (2) CA, which states that the author may only oppose a distortion of the work that is damaging to his personality rights.

Exhaustion only takes place when the copy remains unaltered, with a limited exception for architectural works (Art. 12 [3] CA). If the acquirer modifies a copy of a non-architectural work (which he or she can legally do within the limitations of private use), he or she cannot further distribute it outside the circle that makes up the realm of private use.

As regards repairs of computer programs, see below at Question 11 (i).

f) May the exhaustion of rights be waived contractually?

The principle of exhaustion stipulated in Article 12 CA is mandatory. The exhaustion of rights therefore cannot be waived contractually in Switzerland.

The acquirer can of course contractually undertake not to resell the acquired copy of the work, so that any resale will violate his contractual duties, but this remains without impact on exhaustion of copyright and thus on the rights of the owner to prevent the further distribution (or the use) of the copy by the acquirer after its sale.

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

Exhaustion is justified by using various theories, summed up in the following arguments and examples (cf. H. BÖTTCHER, Die urheberrechtliche Erschöpfung und ihre Bedeutung im digitalen Umfeld, Berne 2013, § 2).

1. Copyright holders should not be rewarded more than once for the sale of one work copy.
 - If an LP is bought and later resold, the composer's position and remuneration is not put at risk by the fact that a different person enjoys the same copy of the work.

2. "Invisible" restraints on the alienation of tangible property should be avoided for the sake of the security of transactions in chattel.
 - The buyer of a used book should not be forced to make sure that the seller has obtained a license to resell the book.
3. Copyright holders should not be able to control aftermarket resale.
 - Copyright already grants an exclusive right for the primary market, owners of lawfully acquired work copies should not be restrained from competing with the author on the secondary market.
4. Users have an interest in free access to as broad an offering of copyright-protected works as possible. This leads to a broad range of works and of prices for works. The principle of exhaustion can be seen as a barrier that specifically limits the distribution right in favour of the general public and their interest in an unimpeded movement of goods, allowing the owner of a copy of the work an unrestricted exercise of its ownership 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?**

Swiss copyright law recognizes international exhaustion. Thus, irrespective of whether a copyright-protected work was lawfully distributed in Switzerland or abroad, the author's right of distribution (Verbreitungsrecht) is exhausted. Consequently, if a copyright-protected work is sold for the first time outside of Switzerland by the rightholder (or with his or her consent), the rightholder is not entitled to prohibit the import of the copyright-protected work into Switzerland (Federal Supreme Court Decision ("FCD") 124 III 321 et seq. consid. 1; PFORTMÜLLER, in: Müller/Oertli (Ed.), Urheberrechtsgesetz (URG), 2. Aufl., Bern 2012, URG 12 N 11).

The principle of international exhaustion cannot be derived from the wording of the statutory provision governing exhaustion (Article 12 (1) CA). When this provision entered into force in 1992, the question whether international or national exhaustion applies was therefore disputed in the legal doctrine. In its landmark decision dated 20 July 1998 (FCD 124 III 321), the Swiss Federal Supreme Court came to the conclusion that the principle of international exhaustion applies in Switzerland.

The principle of international exhaustion encompasses all categories of copyright-protected works. There is, however, one specific reservation to this rule stipulated in Article 12 (1^{bis}) CA which provides that audio-visual (cinematographic) works, (films, but not e.g. computer games) must not be sold or leased as long as such selling or leasing would impair the right of performance of such cinematographic work (see above at Question 3, lit. a, [iii]). The purpose of this provision is to protect the traditional exploitation chain of theatrical movies. A DVD of a movie that is still shown in Swiss cinemas must not be sold or leased in Switzerland even though no longer shown in cinemas of other countries and available there on DVD. In practice, the rule has a major impact on parallel imports of DVDs.

6. **If your law recognizes international exhaustion of rights, what is the rationale/justification under your law for such international exhaustion?**

There are different considerations which justify the principle of international exhaustion. The regime of international exhaustion allows parallel imports. Parallel imports of copyright protected works generally lead to price competition which is a positive effect from a macro-economic point of view (cf. R. HILTY, Urheberrecht, Berne 2011, N 165). Further, the Federal Supreme Court argued in FCD 124 III 321 that the copyright holder is in a position to realize the economic value of his copyright protected work with the first sale, irrespective of whether this first sale takes place in Switzerland or abroad. After the first sale, the legitimate interests of other market players (e.g. wholesalers, retailers) and consumers regarding a free circulation and trading of copies of the work must take precedence over the economic interest of the rightholder (FCD 124 III 321, 332 et seq.). Moreover, the Federal Supreme Court justified the international exhaustion by taking a more socio-cultural view and argued that the cultural exchange is of crucial importance for a small country like Switzerland. The general public's legitimate

interest in the full and free access to foreign cultural goods must therefore outweigh the economic interests of the rightholder (FCD 124 III 321, 332 et seq.).

7. Does your law recognise online 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?

Art. 12(1) CA (see Question 2 above) does not explicitly state whether the transfer (sale or license) of digital work copies on-line amounts to the exhaustion of the rights in that copy.

The language of the statute, in particular the expression “copy of a work” in the three national languages (German: “ein Werkexemplar”; French: “exemplaires de l’œuvre”; Italian: “esemplari dell’opera”) suggests that the legislature intended exhaustion to cover the alienation of tangible copies in the first place. However, the statute was drafted towards the end of the 1980s, when on-line exhaustion was not yet recognised as a particular issue under copyright law.

On 4 May 2011 (prior to the CJEU “UsedSoft v. Oracle” case), the Sole Judge at the Cantonal Court of Zug (sic! 2012, 99) ruled that the transfer of a computer program online under an agreement titled “license” leads to the exhaustion of the rights in that copy of the software, provided that (i) the transfer is not limited in time (“perpetual” right to use) and that (ii) the consideration paid by the user covers such “perpetual” use. In addition, the court mentioned that it considers the rights to be exhausted in a software copy in general if there is no contractual obligation to return the software copy and the transferor does not retain any (factual) power over the particular software copy.

The above mentioned decision was issued by a lower court in preliminary injunction proceedings, which somewhat limits the generality of the ruling. However, the court’s argumentation relies on a more contemporary reading of the words “copy of a work” and “transfer” in the statute, which is convincing, and the ruling might well be followed by higher courts in similar cases (both for software and for other kinds 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?

Under Swiss law a “perpetual license” does not exist, because parties must always have the option to terminate long-term agreements after (even a long) minimal duration. The transfer of a digital copy of a computer program for an indefinite period of time against payment of a one-time license fee corresponding to the value of that copy, however, may be considered a “sale” irrespective of the title of the agreement. In that case the right of further distribution should be considered exhausted under the above-mentioned decision of the Sole Judge at the Cantonal Court of Zug (cf. Question 7), which confirmed the exhaustion for a computer program that has been transferred electronically, i.e. online. Pursuant to this decision, re-sellers of digital copies are generally allowed to further re-sell digital copies.

There is currently no case law as to whether multi-user-licenses can be split up and sold separately. In our view, the issue has to be decided by a two-step test: The first is to determine (1) whether the multi-user license is a mere license or in fact a sale triggering exhaustion, and the second is (2) whether the sale related to one copy with multiple user rights, or to multiple copies.

(1) The first test is closely linked to the question whether such multi-user licenses are, in the specific case, actual “licenses” or whether they should rather be considered a “sale of a copy(ies) of a work whereby the acquirer creates the copy(ies)”.

(2) If such a transaction can be considered a “sale”, the second test relates to whether the acquirer was allowed to create one copy and make it accessible for multiple work stations (“clients”), or whether he was entitled to make several copies that are independent from each other. If both tests are met, there is no objection to the splitting up and reselling of each work copy.² We point out, however, that there is no settled case law or uniformity of opinion among legal authors on these issues. In any event, these considerations may require a case by case analysis.

² In the CJEU “UsedSoft v. Oracle” case, the first test was met, but not the second, so that the software could be sold further, but not split up.

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

In addition to the above mentioned general rule of exhaustion, the statute contains special rules for audio-visual works (Art. 12 [1^{bis}] CA), computer programs (Art. 12 [2] CA) and works of architecture (Art. 12 [3] CA). See Question 3, lit. a above. The differences, however, concern only the consequences of exhaustion (i.e. which specific rights are exhausted and which are not, see Question 3, lit. b above), not the prerequisites. It is therefore assumed that the conditions of on-line exhaustion, as set out for software in the Swiss decision mentioned in Question 7 and 8 above, are identical for all kinds of works transferred on-line. However, this is to date undecided by the Swiss courts.

The consequences of exhaustion (e.g. the fact that rental rights are not exhausted upon transfer of computer software, but are exhausted for other kinds of works, see Question 3, lit. a, (iii) and b above) are identical in on-line and offline constellations.

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

See Question 7. The above mentioned decision of the Zug Cantonal Court considers in sum that if the digital transfer is sufficiently similar to the alienation of a tangible copy (perpetual right to use, consideration corresponding to a perpetual right, no obligation to return and no factual power of the transferor over the work copy), copyright is exhausted by online transfer of a digital copy. As a result (assuming that the Zug Cantonal Court's decision is good law), the exhaustion regime differs only in that there is no need to analyze these issues in the framework of the physical transfer of work copies.

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?

Exhaustion does not apply to (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. These rights remain with the copyright holder even after disposal of a work.

i) Repair

The authorization of the rightholder is required for any alteration of a work (Art. 10 [2] and Art. 11 [1] CA). The CA does not contain any express exceptions to these rules for repairs, other than the right to reverse engineer computer programs in order to obtain information on interfaces for interoperability and maintenance purposes (Art. 21 CA; Art. 17 Copyright Ordinance) and the implied (but generally accepted) right to correct errors in computer programs that have been acquired in a way to exhaust the distribution right. However, for works other than computer programs it is assumed in doctrine that repairs carried out competently and in good faith will not constitute copyright infringements (PFORTMÜLLER, URG 11 N 4; OERTLI, URG 21 N 55 et seqq). Such repairs do not affect the individual character of the work (HILTY, URG N 198) and so do not constitute adaptations. If a repair for technical reasons requires a reproduction of a copyright work, the consent of the copyright holder would not be required if the second copy is used for analysing the defect, testing remedy etc. and then destroyed. The right to use and copy a work for private purposes (Art. 19 CA) may also justify a permanent reproduction of the work, which then may not be re-sold further except within the private circle of the rightholder.

ii) Recycling

Recycling of a copyrighted work may occur where elements of the original work are taken over into a new work but in such a way that the original work is still recognizable in the new work. This may be done by way of transformation into another form (e.g. dramatization, filming or transposition) or alteration of the content to produce a new creation (HILTY, N 123). Such recycling activity may or may not

result in a new work that meets the requirements for independent copyright protection (Art. 3 CA). However, irrespective of whether a new copyrighted work is created or not, the copyright protection of the original work remains in place (Art. 3 [3]CA). Thus, the consent of the rightholder is required to the extent the original work is still recognizable in its originality, but its integrity is affected by the recycling activity (Art. 11 [1] CA), either because it is altered or because it is put in a new context. And even if a third party is contractually entitled or authorized by law to alter the work or to use it to create a derivative work, the copyright holder can still object to any change to the work that is a violation of his or her personality rights (Art. 11 [2]CA).

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?*

Exhaustion of rights should occur for all kinds of works.

With regard to the exception for computer programs (see above Question 3, lit. a [ii]), we would welcome an extension of the existing exception to other kinds of works, e.g., all works in digital form.

With regard to the exception for audio-visual works (films, see above to Question 3, lit. a [iii]), certain members of the group would welcome the abolition of the exception, other members would favour an extension to other types of works, e.g. literary works.

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

As regulated in Article 12 (1) CA, exhaustion should be recognised for the right of distribution. The right of distribution refers to transfer of a work, but also includes certain types of licenses (see at Question 8) and any other method of putting in circulation copies of the work, either as tangible copies or through the internet.

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

It should be more clearly defined what types of lending, licensing and leasing of copies of a work lead to exhaustion of copyright, making clear that any transaction that gives the acquirer permanent control (or practically permanent control in light of the expected lifetime of the copy) without legal obligation to return the copy (or where the obligation to return the copy has no practical meaning), against a consideration of which the rightholder knew or had reason to know that it would be the compensation for the transfer of permanent control over the very copy, leads to exhaustion of copyright. This would e.g. give the secondary market for computer programs a firm legal ground and clear legal demarcation.

Also the CA should state that the licensee benefits, under certain circumstances (e.g. as described at Question 8 or when the licensee deposits further periodic royalty payments), from an exhaustion of the right to use the copy of the work where the right of distribution is exhausted, which would have the result of making the license immune from the bankruptcy of the licensor or the transfer of the underlying copyrights to a third party.

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?*

Yes, exhaustion should not depend on the original and persisting legal validity of the original sale or other distribution, but should take place where the acquirer has a good faith belief that he or she is taking permanent control over the copy of the work.

International exhaustion (specific issue 1)

13. Should there be international exhaustion of copyrights?

International exhaustion is already recognised under Swiss law (with the exception set forth at Question 5). Given the positive economic but also socio-cultural impact of parallel imports, the working group is of the view that the principle of international exhaustion should be maintained in Switzerland.

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

The foremost argument against accepting online exhaustion is that rightholders should be rewarded for the sale of each copy of a work. In the digital world, copying is easy and free and it is technically impossible to “sell” the “same copy”, since electronic transfer always results in the creation of a new copy on a distant computer. The potential for abuse is high, since there is no way to actually control whether the “seller” retains a copy of the work on its own equipment.

However all of the justifications for exhaustion in the tangible world (see Question 4 above) also favour on-line exhaustion. Invisible restrictions (DRM) on electronic copies impair the security of transactions no less than restrictions regarding alienation of tangible goods. Further, accepting that publishers or editors control the aftermarket resale of musical files or e-books would lead to the disruption of competition and the extension of the monopoly granted to them under copyright law to all future uses of works even after work copies are definitely transferred to a purchaser.

On balance, the working group considers that accepting online exhaustion would lead to a more secure and more competitive digital economy. For this reason, the resale of tangible copies and the transfer of digital copies should be treated on a par. Even though the online transfer of digital work copies represents a threat to copyright holders, the abuse potential is neither new nor unique to the digital world. Used LPs and CDs could also be copied before they were re-sold on the flea market. Instead of ruling out online exhaustion, other (e.g. technical) measures can be taken in order to reduce the copyright holders' risks.

15. If there should be online 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?

Based on the decision of the Cantonal Court of Zug of 4 May 2011 and the CJEU decision in re “Oracle v. UsedSoft”, we propose a simple test to determine whether exhaustion should apply that does not depend on the legal nature of the underlying transaction: if the economic intent of the parties (based on the stipulations and the agreed consideration) is a “transfer” and not a “license”, the rights of the copyright holder should be considered exhausted. Whether a specific transfer exhausts the copyright should be assessed on a case by case basis based on the following cumulative conditions:

- Does the agreement provide for a one-time fee upon the transfer of the work?
- Does the agreement grant a perpetual right to use, i.e. a right that corresponds to the economic lifespan of the work?
- Does the consideration correspond to the economic value of one work copy?

If these conditions are met, the following factors can further be assessed:

- Does the transferor retain any factual or legal control over the work copy?
- Does the transferee have an obligation to return the work copy?
- Does the agreement contain unilateral rights to terminate?

Streaming technology does not provide a full “copy of a work” to the user, the question of exhaustion is therefore moot in this constellation. Therefore, there should be no exhaustion if a work is only streamed to the customer, even if the customer is able (by circumventing technical protections and/or by violating its license) to reconstruct a full copy of the work.

Rights should only be considered exhausted in a license for the entire economic lifespan of a work (a “perpetual” license). Granting a right to use that is limited in time is economically different from a transfer, while a perpetual license (in the specific circumstances set out above) comes close to a transfer.

As in the tangible world, digital exhaustion should apply to all re-sellers of all levels, even to re-sellers who themselves purchased the work copy from another re-seller.

Multi-user “licenses” that can be qualified as a transfer of control over multiple copies (see above in this Question 15) should be able to be split up and sold separately, whereas a transfer of control over one copy with multiple user right rights should (These issues are discussed controversially among Swiss legal authors, and there are no precedents).

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

No. In the framework of online exhaustion, there is no reason to treat different kinds of works differently. Special rules for specific groups of works potentially lead to difficulties of interpretation and unjustified advantages for specific industrial sectors over others.

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?

For repairs, the solution followed by Swiss practice strikes a reasonable balance between the interests of the rightholder and the owner of the relevant copy of the work outside the concept of exhaustion, but does so without specific basis in the statute. Repairs are already possible provided they are carried out competently and do not affect the individual character of the work. They are also permitted where carried out for private use. However, the right of repair should ideally be codified in the CA.

Recycling of a work where alteration of the original is involved requires consent of the rightholder, whereby the new creation may itself enjoy copyright protection. This is considered a fair balance of the interests involved.

III. Proposals for harmonisation

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

Yes, for works in a moveable form, as the market for such works is international. However, harmonization is not considered required for architectural works.

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

Yes. Divergences in national laws create invisible restraints on trade, whereas it is not the purpose of copyright law to create limitations on trade.

20. Should online exhaustion of rights be harmonised? Please provide your reasons.

Yes. The digital world is not subject to national boundaries. This should be reflected in copyright law.

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

We do not see a requirement for rules of exhaustion in case of recycling and accordingly no requirement for harmonization. For repair, we propose that harmonized rules be adopted to permit repair of copyrighted works, provided the repair does not affect the individual character of the work.

Summary

In Swiss copyright law, the concept of exhaustion is regulated by statute (Art. 12 CA). It is tied to the transfer of a copy of a work with the authorisation of the rightholder. What is exhausted is the right to further transfer and to further distribute (e.g. through rental of) the work. Differentiated rules apply to audio-visual works, computer programs and works of architecture. Through these special rules, due to the nature of the work the application of exhaustion is either postponed for an initial period (audio-visual works) or limited (computer programs may not be rented out) or extended (works of architecture may additionally be altered). If the copy of the work in question was put on the market lawfully, exhaustion does not depend on the continued existence of the contract under which the first transfer was made. Nor can the effect of exhaustion be excluded by contract.

Exhaustion is international under Swiss law, meaning that it applies independently of the country in which the first transfer takes place. As exhaustion is linked to the transfer of a copy of a work, it is focused on physical distribution forms. However, the prevailing opinion among legal writers today and in a first decision of a cantonal court – as now also the ECJ in the “Used Soft” decision – is that exhaustion also applies to the distribution of computer programs where the first exhaustion-triggering distribution occurs online. Whether exhaustion also applies where copies of a work are licensed has not been finally determined in Switzerland. What is understood as a “license purchase” in Europe, meaning the fully paid up acquisition for perpetual use, however also gives rise to exhaustion in Switzerland. The question of whether “multi-user” licenses may be split up and reallocated among several enterprises remains unresolved. Finally, the repair and recycling of works is not statutorily dealt with in the framework of the exhaustion regime (nor otherwise), other than for computer programs. For computer programs, a right of error correction – as in EU law – follows from the right of use pursuant to Art. 12 (2) CA. The majority of legal writers seem to accept a right to repair copies of a work, provided the work is not so disfigured that an infringement of personality rights occurs. However, there is no acceptance of a right of re-use of protected parts of a work in the (wider) sense of recycling.

The national group is of the opinion that exhaustion should apply to all types of work, potentially with differentiated rules for certain types of works. However the group members are not in agreement over the categories of works to which exceptions should apply. The national group would welcome a clear statutory rule providing that the license of a copy of a work for perpetual use in return for payment of full consideration gives rise to exhaustion, and that this also triggers the right of use in accordance with the license terms. This would protect the license against the bankruptcy of the licensor and more generally against a transfer of copyright by the rightholder. The group wishes to retain international exhaustion, at least for Switzerland, and it supports the position that no distinction be made between a first exhaustion-triggering transfer that occurs physically and one that occurs online. Its view is however that there must be an online transfer of the entire copy of a work so that current streaming technologies would not constitute an exhaustion-triggering distribution, but would be closer to a broadcast of a work. The national group takes the view that for multi-user software licenses it depends whether they entitle the licensee to multiple installations or only to multiple access to one single installation. If a license triggers exhaustion (in accordance with the above principles), then only in the first instance (right to multiple installations) could the license be split up without further consent of the rightholder. A right to repair appears to flow from the concept of exhaustion and could be anchored in statute. The same does not apply however to any right to re-use a work in the sense of recycling.

The national group supports international harmonisation of exhaustion in copyright law with the content as summarised here. The only exception to this is exhaustion for works of architecture, for which there is no global market and so no requirement for harmonisation.

Zusammenfassung

Im schweizerischen Urheberrecht ist die Erschöpfung gesetzlich geregelt (Art. 12 URG). Sie knüpft an die Veräusserung eines Werkexemplars mit Zustimmung des Rechtsinhabers an. Erschöpft wird das Recht zur Weiterveräusserung und zum weiteren Vertrieb (z.B. durch Vermietung) des Werkexemplars. Differenzierende Regeln finden sich für audiovisuelle Werke, Computerprogramme und Werke der Baukunst. Sie lassen entweder die Erschöpfungswirkungen erst zeitlich aufgeschoben (audiovisuelle Werke) oder nur beschränkt (Computerprogramme dürfen nicht vermietet werden) eintreten oder

dehnen die Erschöpfungswirkung wegen der Natur des Werkes aus (Bauwerke dürfen auch verändert werden). Ist das fragliche Werkexemplar rechtmässig auf den Markt gelangt, kommt es nicht mehr auf den Fortbestand des Vertrags an, unter dem die Erstveräusserung erfolgt ist. Auch kann die urheberrechtliche Erschöpfungswirkung nicht vertraglich wegbedungen werden.

Die Erschöpfungswirkungen treten nach schweizerischem Recht international, also ungeachtet des Landes des Erstabsatzes ein. Indem die Erschöpfung an die Veräusserung von Werkexemplaren anknüpft, hat sie Formen des physischen Vertriebs im Auge. Die heute herrschende Lehre und ein erster Entscheid eines kantonalen Gerichts lassen die Erschöpfungswirkung beim Vertrieb von Computerprogrammen – wie jetzt auch der EuGH im Entscheid «Used Soft» – jedoch ebenso eintreten, wenn der erschöpfungsauslösende Erstvertrieb online erfolgt. Ob die Erschöpfung auch bei der Lizenzierung von Werkexemplaren eintritt, ist in der Schweiz nicht restlos geklärt. Das, was in Europa als «Lizenzkauf» verstanden wird, also der vollständig abgezahlte Erwerb zum dauerhaften Gebrauch, lässt aber auch in der Schweiz die Erschöpfung eintreten. Ungeklärt ist die Frage, ob «Multi-user»-Lizenzen nach deren erschöpfungsauslösendem Erwerb aufgespalten und auf mehrere Unternehmen verteilt werden dürfen. Was schliesslich die Reparatur und das Recycling von Werkexemplaren betrifft, sind diese – ausser bei Computerprogrammen – nicht im Rahmen des Erschöpfungsregimes (und auch sonst nicht) gesetzlich geregelt. Bei Computerprogrammen folgt ein Recht auf Fehlerkorrektur – wie im Recht der EU – aus dem Gebrauchsrecht nach Art. 12 Abs. 2 URG. Die wohl herrschende Lehre anerkennt ganz allgemein ein Recht auf Reparatur von Werkexemplaren, solange keine persönlichkeitsverletzende Werkverschandelung stattfindet, nicht aber ein Recht auf Wiederverwendung von geschützten Werkteilen im (weit verstandenen) Recycling.

Die Landesgruppe ist der Meinung, dass die Erschöpfung für alle Werkarten eintreten soll, gegebenenfalls mit werkspezifischen Differenzierungen. Sie ist sich allerdings nicht einig darüber, für welche Werkkategorien welche Ausnahmen vorzusehen sind. Die Landesgruppe würde eine klare gesetzliche Regelung begrüssen, wonach bei Lizenzierung eines Werkexemplars zum dauerhaften Gebrauch gegen volle Abgeltung Erschöpfung eintritt und dass dies auch das Recht zum bestimmungsgemässen Gebrauch auslöst. Damit wären Lizenzen konkursfest und darüber hinaus allgemein gegen die Übertragung des Urheberrechts durch den Rechtsinhaber geschützt. Jedenfalls für die Schweiz will die Landesgruppe an der internationalen Erschöpfung festhalten, und sie steht dafür ein, dass beim erschöpfungsauslösenden Erstabsatz nicht danach unterschieden wird, ob er physisch oder online erfolgt. Nach ihrer Meinung muss aber eine online-Übertragung des gesamten Werkexemplars erfolgen, weshalb die heute bekannten Streamingtechnologien kein erschöpfungsauslösender Vertrieb sind, sondern näher bei der Sendung eines Werkes liegen. Die Landesgruppe vertritt die Auffassung, dass es bei Multi-user Softwarelizenzen darauf ankommt, ob sie zur mehrfachen Installation oder nur zum Mehrfachzugriff auf eine einzige Installation berechtigen. Löst die Lizenzierung (nach obigen Grundsätzen) Erschöpfung aus, kommt eine Aufspaltung ohne erneute Zustimmung des Rechtsinhabers nur im ersten Fall (Recht auf Mehrfachinstallation) in Betracht. Ein Recht auf Reparatur, nicht aber ein solches auf Wiederverwendung des Werks im Recycling erscheint der Landesgruppe als sachgerechte Folge der Erschöpfung und könnte gesetzlich verankert werden.

Die Landesgruppe spricht sich für eine internationale Harmonisierung der Erschöpfung im Urheberrecht mit dem hier zusammengefassten Inhalt aus. Davon ausgenommen ist nur die Erschöpfung bei Werken der Baukunst, für die letztlich kein globaler Markt und daher auch kein Harmonisierungsbedürfnis besteht.

Résumé

Le principe de l'épuisement est réglé par la loi suisse sur le droit d'auteur (art. 12 LDA). L'épuisement est lié à l'aliénation d'un exemplaire de l'œuvre avec le consentement de l'auteur. C'est le droit d'aliéner à nouveau et le droit de distribution d'un exemplaire de l'œuvre (par exemple par la location) qui s'épuisent. Des règles différenciées s'appliquent aux œuvres audiovisuelles, aux logiciels et aux œuvres d'architecture. Ces règles retardent le moment de l'épuisement des droits (pour les œuvres audiovisuelles), limitent les droits considérés épuisés (les logiciels même aliénés ne peuvent être loués) ou encore élargissent l'effet de l'épuisement en raison de la nature de l'œuvre (les œuvres d'architecture peuvent être modifiés). Si un exemplaire donné de l'œuvre parvient licitement sur le

marché, la question de savoir si le contrat relatif à la première aliénation est encore valable n'est pas déterminante. L'effet de l'épuisement en droit d'auteur ne peut pas non plus être limité par contrat.

Le droit suisse consacre le principe de l'épuisement international. Ainsi, il n'est pas nécessaire de savoir dans quel état l'œuvre a été aliénée pour la première fois. Dans la mesure où l'épuisement concerne un exemplaire de l'œuvre, il vise en premier lieu la distribution physique de tels exemplaires. La doctrine et une première décision d'un tribunal cantonal considèrent toutefois que la distribution de logiciels en ligne épuise également les droits du titulaire – de la même manière que dans la décision de la CJUE dans l'affaire «UsedSoft». La question de savoir si une licence permet aussi d'épuiser les droits du titulaire n'a pas été définitivement tranchée en Suisse. Toutefois, «l'achat d'une licence» («Lizenzkauf») du droit européen, c'est-à-dire une acquisition intégralement rémunérée pour un usage durable, mène à l'épuisement des droits en Suisse aussi. La question des licences à utilisateurs multiples («multi-user licenses») et en particulier celle de savoir si elles peuvent être scindées et distribuées à des entités différentes après leur acquisition (dans le sens d'une acquisition qui entraîne l'épuisement) demeure ouverte. Enfin, la réparation et le recyclage d'exemplaires d'œuvres ne sont réglés ni par les dispositions concernant l'épuisement, ni par ailleurs dans la loi – à l'exception des logiciels. Les logiciels peuvent être réparés – comme en droit de l'Union européenne – sur la base du droit d'utiliser le logiciel d'après l'art. 12 al. 2 LDA. La doctrine dominante semble reconnaître plus généralement un droit à réparer des exemplaires d'œuvres dans les limites d'une altération qui porterait atteinte au droit moral de l'auteur. A l'inverse, la doctrine ne semble pas accepter un droit de réutiliser des parties d'œuvres protégées au sens d'un recyclage au sens large.

Le Groupe de travail est d'avis que l'épuisement des droits doit s'appliquer à tous types d'œuvres, avec des distinctions spécifiques à certaines œuvres le cas échéant. Le Groupe de travail n'est toutefois pas unanime sur la question de savoir quelles catégories d'œuvres devraient être couvertes par ces exceptions. Le Groupe de travail saluerait une réglementation légale claire confirmant que la licence d'un exemplaire d'œuvre pour un usage durable et contre une rémunération intégrale entraîne l'épuisement des droits et confère le droit d'utiliser cet exemplaire d'œuvre conformément à sa destination. Ainsi, la faillite du donneur de licence n'aurait pas de conséquence sur les droits du preneur de licence et celui-ci serait protégé de manière générale contre la cession du droit d'auteur par le titulaire. Le Groupe de travail souhaite en tous les cas maintenir le principe de l'épuisement international et ne souhaite pas distinguer entre aliénation physique ou en ligne. De l'avis du Groupe de travail toutefois, c'est un exemplaire complet de l'œuvre qui doit être transféré en ligne, ce qui a pour conséquence que les technologies de streaming employées aujourd'hui ne constituent pas une distribution propre à épuiser les droits; elles se rapprochent d'une diffusion de l'œuvre. Le Groupe de travail est en outre d'avis que les licences de logiciel à utilisateurs multiples doivent être distinguées selon si elles permettent des installations multiples ou seulement des accès multiples à une seule installation. Si la licence est propre à entraîner l'épuisement (selon les principes explicités ci-dessus), la scission de la licence sans le consentement de l'ayant droit n'est acceptable que dans le premier cas (droit d'effectuer plusieurs installations). Le droit de réparer l'œuvre apparaît comme une conséquence légitime de l'épuisement aux yeux du Groupe de travail et pourrait être explicitement ancré dans la loi. Cela ne s'applique pas au droit de recycler l'œuvre.

Le Groupe de travail soutient une harmonisation internationale de l'épuisement en droit d'auteur selon les principes énoncés ci-dessus. Une exception pourrait être faite dans le cas de l'épuisement des œuvres d'architecture pour lesquelles il n'existe pas de marché global et par conséquent aucun besoin d'harmonisation.