

PERMANENT DOWNLOADS AND THE RESALE OF DIGITAL CONTENT: ANOTHER EXHAUSTING JOURNEY?

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ABSTRACT The rise of digitally supplied content has created several ambiguities regarding the treatment of such content as goods or services. The shift in the medium of delivery from physical objects to digital formats has raised several questions in the realm of copyright law. The concepts of exhaustion and first sale, the interpretation of which in the Indian context is already arguably confused, now face additional uncertainties and ambiguities. This paper seeks to identify questions that arise in the field of copyright law due to the emergence of this new medium of delivery, such as whether the circulation of digital content constitutes ‘distribution’ or ‘communication to the public’, fair dealing rights associated with such delivery, and other contractual, legal and technology related issues. This paper attempts to answer these questions, relying on both international and Indian sources. In doing so, this paper analyses case law of the EU and USA, to discover the varying positions with respect to digitally supplied content for permanent download and the application of the first sale doctrine and exhaustion, and the resultant implications. This paper also examines the Indian position, against the backdrop of the 2012 Amendment to the Indian Copyright Act, 1957 and a recent Bombay High Court judgment.

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I. INTRODUCTION

Earlier, digital formats, books, movies, songs etc. were supplied on physical media which easily fit within the definition of 'goods' – tangible, movable and marketable objects. This characterisation also enabled purchasers to acquire ownership over physical copies that were lawfully purchased. Consequently, the purchaser could control the onward distribution of the copy which in turn led to the creation of second-hand markets.

Today, however, digital formats distributed over computer networks (digital content) have profoundly impacted the state of affairs and have rendered physical media on which works were fixed, such as printed books, CDs and DVDs, unnecessary. The dematerialisation of information goods has obscured their character and, in some instances, has caused a seismic shift in their identity - from goods to services. This change in identity has also challenged traditionally well-founded concepts of ownership of goods. Consumers of such digitally supplied content have, to a large extent, lost control over the copies consumed. Even so, the demand for information goods, in their dematerialised form, has been on the rise for over a decade.

This perceived shift in identity has led to debates on the appropriate classification of digital content – a good or a service? Such debates have also been recently covered by the mainstream media in India.¹ These debates throw light on the fact that market dynamics in the virtual world are different from that of the material world. Unlike physical copies, digital copies do not deteriorate with use, are perfect substitutes and can be copied and transferred instantaneously (unless they are locked, which is not infrequent now). This difference raises several questions. Is digitally supplied content property? If so, should the buyers/users of such property have any ownership claims? Does the creation of a parallel virtual market of 'used' digital content affect

¹ Rahul Matthan, 'Let's Update the Notion of Ownership to the Digital Age' *Livemint* (11 February 2020) <<https://www.livemint.com/opinion/columns/let-s-update-the-notion-of-ownership-to-the-digital-age-11581443947257.html>> accessed 14 April 2020; Darsan Guruvayurappan, 'Digital Purchases: Act before it's too Late' *Deccan Herald* (27 January 2020) <<https://www.deccanherald.com/opinion/panorama/digital-purchases-act-before-it-is-too-late-798415.html>> accessed 14 April 2020.

the reward to right holders? Is the possibility of increased piracy a consideration to be taken into account? To a large extent, the answers to each of these questions depend on the mode of delivery of digital content, such as online streaming, subscription-based access or permanent downloads. This paper primarily examines one of these modes of content delivery - digital content available for permanent download. The online streaming and subscription-based models are also briefly discussed. The aim of this paper is to discover the Indian treatment of permanent downloads, compare it to international treatment and to draw the attention of policy makers to critical legal questions that remain unanswered.

Deciding whether to treat digital content available for permanent download as a sale of goods or a provision of a service can have far reaching economic, social, and cultural implications. The decision could either expand the Indian market by creating a secondary market for lawful copies of digital content, if such content is treated as goods, or restrict the market by classifying such content as services. However, such a decision could also either expand or restrict foreign investment, as arguably, digital services are treated more liberally than goods under the present foreign exchange regime. The purpose of the paper is not to provide answers or to take a side but only to highlight to policy makers that a clear position on this issue is required not only from an access to information perspective but also from a foreign trade perspective.

Part II of this paper will distinguish between the exclusive rights of the copyright holder – reproduction, distribution and communication to the public, and explain the concept of exhaustion of rights. Part III will analyse two recent decisions of the European Court of Justice, which have classified the supply of digital content, in one instance, as an exercise of the right to distribution, and in another instance, as an exercise of the right of communication to the public. This part will also deal with the implications of such a classification, and examine the position with respect to digitally supplied content (for permanent download) under the Indian Copyright Act, 1957 against the background of the 2012 copyright amendments and a recent Bombay High Court judgment in *Tips Industries v Wynk Music*.

II. EXCLUSIVE RIGHTS

A. The Copyright Act (“Copyright Act”)

i. The exclusive rights of reproduction, distribution and communication to the public

The Copyright Act, 1957 (“Copyright Act”) vests copyright owners with specific exclusive rights which include the rights of reproduction, distribution and communication to the public.²

The exclusive right of reproduction permits the copyright owner to make copies of the original work. The exclusive right of distribution/sale allows owners to control the sale of original/copies of original copyrighted works that are not already in circulation i.e. copies that have not already been sold.³ The exclusive right to communicate to the public allows owners to make a work or performance available for being seen or heard or otherwise enjoyed by the public, without issuing physical copies, by any means of display or diffusion, to be enjoyed individually or simultaneously.⁴ For example, airing of a song on the radio, or the screening of a movie in a movie theatre, are exclusive rights of ‘communicating to the public’.

ii. The doctrine of first sale and exhaustion

The exclusive right of distribution, however, is subject to exhaustion.⁵ In the material world, the copyright owner has the exclusive right to sell a copy of a book, music or movie CD to a purchaser. After the first sale, the purchaser acquires ownership over that copy. Consequently, the purchaser has the right to control the onward distribution of that copy and can resell, distribute, gift, transfer that copy. The copyright owner therefore loses control over distribution of a copy of a work after its first lawful sale and the exclusive right of distribution is exhausted on the first lawful sale. The first sale doctrine assures the copyright owner an opportunity to realise the full value of each copy while ensuring that the copyright owner does not realise the value of each copy more than once.⁶ The doctrine of exhaustion is therefore a sig-

² The Copyright Act 1957, s 14.

³ The Copyright Act 1957, ss 14(a)(ii), 14(b)(ii), 14(c)(iii), 14(d)(ii) and 14(e)(ii).

⁴ The Copyright Act 1957, s 2(ff).

⁵ The Copyright Act 1957, s 14(a)(ii); The phrase ‘*not being copies already in circulation*’ has been explained to mean “*a copy which has been sold once shall be deemed to be a copy already in circulation*”; *Warner Bros. Entertainment Inc. v Santosh VG* (2009) SCC OnLine Del 835 [58].

⁶ *ibid* [57]; See also Pranesh Prakash, ‘Exhaustion: Imports, Exports and the Doctrine of First Sale in Indian Copyright Law’ (2012) 5(4) NUJS Law Review 635 (Pranesh).

nificant right of purchasers of copyrighted works. This doctrine allows for the resale of copyrighted works and enables the creation of lawful parallel second-hand markets.

The exclusive right to communicate to the public, however, is not subject to the right of exhaustion. The copyright owner retains complete control over the work through this mode of delivery of content. There is no transfer of property rights to the consumer and the consumer is seen to be enjoying a service.

B. International treaties and the doctrine of exhaustion

Article 6 of the Trade-Related Aspects of Intellectual Property Rights (“TRIPS”) arguably leaves it to Member States to adopt territorial rules of their choice when it comes to exhaustion – whether the exhaustion would be national or international.⁷

While the TRIPS does not lay down a rule of exhaustion for content in the digital environment, this rule has been discussed at international forums after the TRIPS. The World Copyright Treaty, 1996 (“WCT”) and the WIPO Performances and Phonograms Treaty, 1996 (both with effect from 2002 and collectively referred to as “WIPO Internet Treaties”)⁸ deal with the protection of works/performances in the digital environment. The purpose of the WIPO Treaties is to update the existing major copyright related treaties i.e. the Berne Convention and the Rome Convention, to respond to developments in technology and the market.⁹ Among other inclusions, such as extending protection to computer programs, databases, inclusion of digital rights management, the WIPO Internet Treaties also deal with distribution rights and the right to communicate to the public.

With respect to the distribution rights of literary and artistic works, performances and phonographs, the Agreed Statements to the WIPO Internet Treaties limit this right exclusively to fixed copies that can be put into

⁷ Agreement on Trade-Related Aspects of Intellectual Property Rights, April 15, 1994, Annex IC to the Marrakesh Agreement Establishing the World Trade Organisation 1994, 1869 UNTS 299, arts 6, 28; Article 6 states ‘For the purposes of dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights’.

⁸ World Intellectual Property Organisation Copyright Treaty, December 20, 1996, 2186 UNTS 121(WCT); World Intellectual Property Organisation Performances and Phonograms Treaty, December 20, 1996, 2186 UNTS 203 (WPPT).

⁹ Berne Convention for the Protection of Literary and Artistic Works, September 9, 1886, as revised at Paris on July 24, 1971 and amended in 1979, S. Treaty Doc. No. 99-27 (1986); Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, October 26, 1961, 496 UNTS 43.

circulation as tangible objects.¹⁰ Thus, both the exclusive right of distribution and the doctrine of exhaustion apply only to physical goods, and not to intangible digital content. This implies that resale of legally purchased digital content without authorisation from the copyright-holder is not permissible.

Even before India acceded to the WIPO Internet Treaties in 2018, the Indian legislature had already amended certain provisions of the Copyright Act in 2012 to bring them in line with the WIPO Internet Treaties. However, as discussed in the next section of this paper, the 2012 amendments do not completely align the Indian position with that of the WIPO Internet Treaties, especially with respect to distribution rights for digital formats.¹¹

III. PERMANENT DOWNLOADS: REPRODUCTION, DISTRIBUTION AND COMMUNICATION TO THE PUBLIC

A. The USA and the European Union (“EU”) and their examination of distribution of digital content for permanent downloads

The USA and the EU have had the opportunity to deal directly with issues relating to permanent downloads and resale in notable instances as examined below.

Given the generally harmonised nature of intellectual property rights laws, it is worth examining how the USA and EU, the most powerful voices in the intellectual property rights arena, have dealt with the problems surrounding copyrighted material delivered for permanent download.

¹⁰ WCT, arts 6, 7; The agreed statement concerning Articles 6 and 7: *As used in these Articles, the expressions “copies” and “original and copies” being subject to the right of distribution and the right of rental under the said Articles, refer exclusively to fixed copies that can be put into circulation as tangible objects*; WPPT, Article 12; The agreed statement concerning Article 12: *As used in these Articles, the expressions “copies” and “original and copies” being subject to the right of distribution and the right of rental under the said Articles, refer exclusively to fixed copies that can be put into circulation as tangible objects*.

¹¹ Press Information Bureau, ‘Cabinet approves accession to WIPO Copyright Treaty, 1996 and WIPO Performances and Phonograms Treaty, 1996’ (4 July 2018) <<https://pib.gov.in/newsite/PrintRelease.aspx?relid=180389>> accessed 15 April 2020; Rishabh Mohnot, ‘Huge Win for Copyright Owners: India Signs up to Internet Copyright Treaties!’ (*SpicyIP*, 6 July 2018) <<https://spicyip.com/2018/07/huge-win-for-copyright-owners-india-signs-up-to-internet-copyright-treaties.html>> accessed 19 April 2020.

i. USA

In *Vernor v Autodesk*,¹² the court was tasked with deciding whether the purchase and subsequent sale of used copies of Autodesk’s software amounted to copyright infringement. The case required the court to assess whether Autodesk *sold* copies of its software to its customers or merely *licensed* the copies without a sale. If customers owned copies of the software then both the onward sale to Vernor and Vernor’s subsequent sales would be non-infringing under the first sale doctrine. However, if Autodesk only granted a licence to the software, then sale of those copies would not be protected by the first sale doctrine and would therefore infringe Autodesk’s exclusive distribution right. The court held that since the download of the software was subject to an express licence agreement (which was also limited in time), there was no sale of the software in the first place. The court held that even though the software was available for permanent download, the copyright holder had subjected the download to an express licence agreement and reserved all rights with respect to that copy of software. Therefore, resale was not permitted without authorisation from the copyright holder.

In the *Redigi* case,¹³ the defendants had created an internet platform that was intended to enable the lawful resale of lawfully purchased digital music files. In order to facilitate this resale, the defendants hosted the files on the platform. The technology developed by Redigi was sophisticated. The technology first scanned the music file to check whether it was a lawful copy, then migrated the file from the user’s computer to the platform. This ensured the user’s copy was deleted.

While Redigi facilitated the second-hand sale of digitally acquired music files, however, this required files to be reproduced in the process.¹⁴ As a result, the court held Redigi liable for infringement of copyright, as such reproduction was not protected by either the doctrine of first sale or fair use.

ii. EU

The WIPO Internet Treaties were ratified by the EU in 2009.¹⁵ The EU has had the opportunity, in notable instances, to decide whether the supply of digital content for permanent download would amount to “distribution” or

¹² *Vernor v Autodesk Inc.*, 621, F 3d 1102 (9th Cir 2010).

¹³ *Capitol Records LLC v Redigi Inc.*, No. 16-2321 (2nd Cir 2018).

¹⁴ *ibid.*

¹⁵ European Commission, ‘European Commission welcomes ratification of the WIPO Copyright Treaties’ (14 December 2009) <https://ec.europa.eu/commission/presscorner/detail/en/IP_09_1916> accessed 19 April 2020.

“communication to the public”. Even though the subject matter of both the decisions is covered by the WCT, there have been contrasting decisions in this regard.

With respect to software that is supplied for permanent download, in 2012, the Court of Justice of the European Union (“CJEU”) in *UsedSoft GmbH v Oracle International Corpn.* (“UsedSoft Decision”) held that such supply amounts to a sale of the software irrespective of the agreement being a licence agreement, since the licence permitted permanent and not time bound access to the software. Consequently, the court has held that a lawful permanent download of a software results in the exhaustion of the distribution right over that copy of software and onward resale was held to be lawful.¹⁶ Further, reproduction of the software, to facilitate the second-hand sale and for use after the second-hand purchase, was not considered an infringement of the exclusive right of reproduction.¹⁷ The court took a functional approach and observed that unlike other copyrighted material, software was necessarily required to be reproduced to be used. If such reproduction was not permitted, the exhaustion of the right of distribution would be meaningless.

The UsedSoft Decision was subsequently cited in *Aleksandrs Ranks v Microsoft*¹⁸ for several propositions of law including the interpretation of sale for the purposes of the first sale doctrine. In this case, it was held that a lawful acquirer of a copy of a computer program, on a material medium, that is accompanied by an unlimited licence, can resell the copy to a new acquirer. However, the court held that back-up copies, on non-original medium, cannot be resold without the consent of the copyright holder under the first sale doctrine.

In contrast to the UsedSoft Decision, the CJEU did not extend the same treatment to information goods such as e-books which are covered by a different directive but also enacted to implement the WCT.¹⁹ In 2019, in *Nederlands Uitgeversverbond v Tom Kabinet Internet BV*, (“**Tom Kabinet Decision**”) the CJEU held that the supply of a book on a material medium and the supply of an e-book cannot be considered equivalent from an economic and functional point of view. It held that the supply of an e-book to

¹⁶ Judgment of 3 July 2012, *UsedSoft GmbH v Oracle International Corpn.* C-128/11, ECLI:EU:C:2012:407 2013 Bus LR 911 (UsedSoft) [48].

¹⁷ *ibid* [88].

¹⁸ *Aleksandrs Ranks v Microsoft*, C-166/15, 2016, 2017 Bus LR 290.

¹⁹ Council Directive 2001/29/EC of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society [2001] OJ L 167/10 (InfoSoc Directive).

the public by downloading, for permanent use, is covered by the concept of ‘communication to the public’ and not by the exclusive right of distribution, and their rights would not be exhausted.²⁰ While interpreting the exclusive right of distribution of original/lawful copies, the court referred to the Agreed Statements of the WCT - Articles 6 and 7.²¹ According to these statements, the expressions “copies” and “original and copies”, being subject to the right of distribution and the right of rental, refer exclusively to fixed copies that can be put into circulation as tangible objects. The court held that the exclusive right of distribution does not encompass distribution of intangible works such as electronic books.

At a policy level, the results of these decisions impact markets for software and other digital content differently. The UsedSoft Decision treats physical and digital mediums similarly and effectively creates a legal second-hand market for licensed software available for permanent download (except back-up copies), regardless of the terms of the licence agreement. This decision also attempts to curb free-riding by requiring persons reselling software to ensure that the software is rendered unusable pursuant to the resale. To achieve this, copyright holders may introduce technological measures to monitor digital copies. While this judgment is impactful in opening up the used software market, it is limited since it is targeted only at software available for permanent downloads and may not extend to software provided as managed services or contracts of service or licences that are limited in time.

On the other hand, the Tom Kabinet Decision and decisions in the USA foreclose the creation of a secondary market for used digital content. Treating e-books supplied for permanent downloads as a communication to the public effectively renders it as a service being provided by the copyright holder rather than a sale of a good. Such a treatment greatly benefits copyright holders, permits them to control distribution of such content and consequently reduces the scope for piracy. The market, on the other hand, is deprived of autonomy, is restricted and expansion is controlled.

B. Discovering the Indian position

There have been no court cases nor amendments to the Copyright Act addressing the issue of whether or not the resale of copyright protected material in digital formats is permitted in India. Indian courts have considered the rule

²⁰ *ibid* [49].

²¹ *ibid* [40], [45], [50], [51]; WCT, Agreed Statement concerning arts 6 and 7.

of exhaustion only in relation to physical objects such as books, DVDs.²² The discussion below seeks to discover the Indian position, the implications of such a position and seeks to examine questions along with possible answers Indian courts or policy makers will have to address in such situations.

The Rajya Sabha Parliamentary Standing Committee on the Copyright (Amendment) Bill, 2010, (“**Standing Committee**”) and the judiciary appear to have indirectly addressed this issue, though not completely.

i. Standing Committee’s views

As discussed above, the Copyright Act was amended in 2012. One of the objects of the amendment was to align the Copyright Act with the WIPO Internet Treaties, to the extent necessary and desirable.²³ The report of the Standing Committee states that the definition of ‘communication to the public’ under the Copyright Act was amended to bring it in line with the WCT.²⁴ As it stands and as introduced before the Standing Committee, communication to the public means making any work or performance available to the public directly or by any means of display or diffusion, *other than by issuing physical copies of the work*, for enjoyment either individually or simultaneously.²⁵ This definition is aligned at least to the WCT i.e. limiting this definition to communication through digital formats.²⁶

From the discussions of the Standing Committee, it appears that music companies were wary that the proposed amendment would be interpreted to mean that digital sales, such as the sale of a song through iTunes, would also fall within the definition of ‘communication to the public’. They argued that such an interpretation would be wrong because digital sales are sales nonetheless, though on a different medium. Such sales should therefore not be covered within this definition.²⁷ The Standing Committee agreed and clarified that their reservations were unfounded since issuing physical copies or legitimate digital downloading of music or video recording by payment cannot be considered a communication to the public.²⁸

²² *John Wiley & Sons Inc. v Prabhat Chander Kumar Jain* 2010 SCC OnLine Del 2000 : ILR (2010) 5 Del 510; *See also* Pranesh (n 5).

²³ The Copyright (Amendment) Act 2012, Statement of Objects and Reasons.

²⁴ Department-Related Parliamentary Standing Committee on Human Resource Development, Two Hundred Twenty-Seventh Report On The Copyright (Amendment) Bill, 2010 (23 November 2010) <https://www.prsindia.org/sites/default/files/bill_files/SCR_Copyright_Bill_2010.pdf> accessed 19 April 2020 (Standing Committee Report).

²⁵ The Copyright Act 1957, s 2(ff).

²⁶ Agreed Statements, WCT, art 8.

²⁷ Standing Committee Report, para 6.2.

²⁸ Standing Committee Report, para 6.3.

Though the definition of ‘communication to the public’ under the Copyright Act very clearly extends to issuance of digital copies, the Standing Committee’s report suggests that digital copies that are downloaded for payment will somehow not be covered within the ambit of ‘communication to the public’ in India. This indicates the intention of the Standing Committee to treat permanent digital downloads at par with the issuance of physical copies of works. Further, the Copyright Act was not amended to limit the right of distribution and consequently exhaustion, to tangible physical objects. This would imply that the right of distribution of works and consequently the doctrine of exhaustion would not be limited only to fixed tangible copies but also to digital downloads.

While the EU has taken a similar approach in the case of software, for other information goods such as e-books, the EU has gone the WCT way by treating physical and digital works differently and applying the rule of exhaustion only to physical copies.

ii. Single Bench Bombay High Court’s view in *Tips Industries v. Wynk Music*

A recent Bombay High Court judgment (single bench) has also followed the same view taken by the Standing Committee.²⁹ This case, however, was not concerned with the issue relating to the legality of resale of digital goods. The case was a copyright infringement case and was more important for its holding on statutory licensing. However, it throws light on the treatment of copyrighted content that is supplied by way of permanent downloads.

The defendant in this case provided songs to its customers through an online platform and mobile app. Customers could either (a) pay a one-time fee and download a song permanently, or (b) pay a subscription fee and listen to songs during the subscription period, or (c) stream songs and listen to them online.

The defendant was providing songs owned by the plaintiff without a valid licence. The plaintiff therefore instituted an action for copyright infringement of the sound recordings against the defendant. The Copyright Act grants the owner of a copyright in sound recordings, among other rights, the exclusive right to sell the sound recordings. In this regard, in order to establish infringement, the plaintiff was required to show that the defendants

²⁹ *Tips Industries Ltd. v Wynk Music Ltd.* Notice of Motion (L) No. 197 of 2018, decided on 23-4-2019 (Bom) available at <<https://www.medianama.com/wp-content/uploads/ordjud-2019-05-07T004008.448.pdf>> accessed 6 June 2020 (This judgement has been appealed before a Division Bench of the Bombay High Court and a decision is pending).

continued to ‘sell’ the plaintiff’s sound recordings without authorisation. The plaintiff was successful in establishing this with respect to the songs that were permanently downloaded by users for payment of a one-time fee. The factors that led the court to equate a permanent download for payment as a sale were the following: (a) sound recordings are permanently downloaded onto the customer’s device; (b) the permanently downloaded copy could be accessed and enjoyed by the customer without the app; (c) such a copy could also be further copied and/or transferred without restrictions to other devices.³⁰ These factors led the court to hold that a permanent download of the plaintiff’s song by customers from the defendant’s platform amounted to a ‘sale’ of the sound recording. Since the ‘sale’ of a sound recording was the exclusive right of the plaintiff, without a valid license, the defendant’s act of selling these songs amounted to copyright infringement.³¹

Further, the court referred to the observations of the Standing Committee, to hold that a permanent download for payment will not be covered within the ambit of ‘communication to the public’ in India and will instead constitute an act of distribution.³² Just like the Standing Committee, the court failed to acknowledge that the definition of ‘communication to the public’ clearly extends to the issuance of digital copies of works. The interpretation of the court and the Standing Committee renders the amendment to this definition meaningless. As stated above, the plain language of the amendment excludes only the issuance of ‘physical’ copies from the ambit of the definition of ‘communication to the public’. Further, the interpretation of the court and the Standing Committee equates physical copies with digital copies for permanent download, which was exactly what the WIPO Internet Treaties were trying to prevent. If indeed our Copyright Act was amended to bring it ‘in line’ with the WIPO Internet Treaties, such interpretations defeat the purpose of the very amendment. These statements therefore indicate that permanent digital downloads are to be treated at par with the issuance of physical copies of works in India.

iii. Implications of the Indian view, so far, and a host of unanswered questions

a. Copyright Act

From the above, it appears that the Indian view, so far, is that copyrighted material supplied through digital formats for permanent download could

³⁰ *ibid*, [23].

³¹ *ibid*.

³² *ibid*, [44], [45].

qualify as a sale of a good. Taking this conclusion a step further would imply that, upon the first lawful sale of a copy of a digital good, the exclusive distribution right of the copyright holder over that copy is exhausted. It may therefore be possible to argue that digital exhaustion applies in India and resale of lawful digital copies is permissible in India.

However, the nuances of this resale right remain unclear – if the copy that has been downloaded is resold, and the process of resale requires the seller and acquirer to make copies to facilitate transmission and consumption, will the reproduction amount to infringement or will it be covered as fair dealing under Section 52 of the Copyright Act?³³

The answer to this question is not straightforward. For instance, in the *Redigi* case decided in the USA, Redigi facilitated the second-hand sale of digitally acquired music files, however, this required files to be reproduced in the process.³⁴ As a result, the court held Redigi liable for infringement of copyright, as such reproduction was not protected by either the doctrine of first sale or fair use. In contrast, the *UsedSoft* Decision adopted a functional approach. As discussed above, this case was with respect to software, and held that the concept of exhaustion would be rendered meaningless if reproduction was not permitted in cases where lawful resale and consumption required reproduction.

In India, Section 52 of the Copyright Act lists out specific fair dealing/use rights of users. With respect to computer programs, users (lawful possessors) are permitted to make copies of a computer program in order to utilise the computer program for the purpose for which it was supplied.³⁵ Generally, this fair dealing right applies to the first lawful possessor. If permanently downloaded software is treated as a sale, the purchaser and subsequent lawful acquirers of that copy, being lawful possessors, can make copies of the software in order to utilise the software. Read this way, this fair dealing right reflects the reasoning of the *UsedSoft* Decision. Such copying may therefore not be considered as a violation of the exclusive right of reproduction.

With respect to other works, however, the position may be different. Section 52 permits transient or incidental storage of a work or performance purely in the technical process of electronic transmission or communication to the public.³⁶ A separate fair dealing right is provided for transient or incidental storage of a work or performance for providing electronic links,

³³ See also *Capitol Records LLC v Redigi Inc.*, No. 16-2321 (2nd Cir 2018).

³⁴ *ibid.*

³⁵ The Copyright Act 1957, s 52 (aa)(i).

³⁶ The Copyright Act 1957, s 52 (b).

access or integration, and this right is subject to the copyright holder's consent and safe harbour provisions.³⁷ These provisions were introduced by the 2012 amendment and there was considerable opposition to these provisions before the Standing Committee.³⁸ The discussions highlighted the possibility of unauthorised copies being given a free hand.³⁹ Resale of authorised copies was not discussed. Reproduction of authorised copies, however, for the purpose of a lawful resale may fall within this fair dealing exception. This may be so if the storage is transient and solely done for the purpose facilitating a lawful resale. Such reproduction/storage may be argued to be incidental to the main purpose of facilitating a lawful resale. For example, a resale may require a copy of a work to be first removed from the reseller's device and then temporarily reproduced/stored on a cloud storage facility after which it is downloaded (and removed from the cloud storage facility) by the ultimate purchaser.

While it may be possible to defend the above position in theory, the actual practise of such resale rights depends largely on technical solutions. Practical problems of ensuring that a copy that is resold is actually a lawful copy and does not continue to reside with the seller after the sale, magnify in the digital context. Technical solutions such as locks and keys and monitoring tools may be used to ensure that copies that are resold are lawfully acquired copies and once resold will not reside with the seller. Technology is fast developing and it is possible that such monitoring tools may be implemented and used by copyright holders.⁴⁰ If such a possibility is real, e-commerce companies will benefit from operating and controlling resale platforms and consumers will benefit from increased choice, lower prices and more access. While the possibility of piracy cannot be ruled out, the degree of piracy with such technological tools will be considerably reduced.

Further, recognition of such resale rights would also require clarity on the rule of exhaustion that would be applied in the digital space i.e. national or international. Indian courts have had difficulty in grasping the concept of exhaustion with respect to the import and export of physical goods such as books and DVDs. This is seen through several case laws, which have either not taken into account the concept of exhaustion at all in their rulings,⁴¹ or

³⁷ The Copyright Act 1957, s 52 (c).

³⁸ Standing Committee Report, para19.3-19.7.

³⁹ *ibid.*

⁴⁰ David Streitfeld, 'Imagining a Swap Meet for E-Books and Music' *The New York Times* (March 7, 2013) <<https://www.nytimes.com/2013/03/08/technology/revolution-in-the-resale-of-digital-books-and-music.html>> accessed 13 July 2020.

⁴¹ *Eurokids International (P) Ltd. v India Book Distributors Egmont Books Ltd.* 2005 SCC OnLine Bom 905 : (2005) 6 Bom CR 198.

even while doing so, have wrongly applied it to the facts.⁴² Contrary to these rulings, the Copyright Act clearly allows for an international exhaustion regime. This means that once a lawful copy of a work is sold anywhere in the world, the copyright owner's exclusive right over that copy is exhausted internationally. This allows purchasers to buy and sell such copies, import and export freely without jurisdictional control of the copyright owner. International exhaustion therefore allows for weaker territorial control by the copyright owner and greater freedom of trade. The Copyright Act protects both Indian and foreign works alike and grants the exclusive rights to 'issue copies of works not already in circulation' i.e. copies not already sold, to copyright owners both Indian and foreign.⁴³ Given that the Copyright Act affords protection to foreign owners/works in the same manner as Indian owners/works, both such owners/works are also subject to the same limitation i.e. the exclusive right to distribute copies is limited to copies that are not already in circulation (regardless of jurisdiction).⁴⁴ It is crucial for a country like India to clarify the existing lacuna in the law of exhaustion and follow an international exhaustion regime in order to ensure wider access to content and to be able to tap into the true benefits of an expansive marketplace like the internet.

Since these issues have not been explicitly considered, there also remains a possibility of courts adopting the approach agreed to in the WIPO Internet Treaties and classifying any digital supply of copyrighted material as a communication to the public and not as a right of distribution. Such a view will, however, run counter to the views of the Standing Committee and the Bombay High Court but the deviation will have to find support from the language of the Copyright Act, especially 'communication to the public'. Further, the facts of each case may result in a different end result. For instance, if a download of a copyrighted work was subject to an express licence agreement (especially if such a licence is limited in time), the copyright holder may argue that there was never a sale in the first place. A decision in the USA in *Vernor v Autodesk*⁴⁵ followed this reasoning. The court held that even though the software was available for permanent download, the copyright holder subjected the download to an express license agreement and reserved all rights with respect to that copy of software. Contrary to this position, the UsedSoft Decision looked beyond the mere words of the license agreement and categorised the download as a sale.

⁴² Pranesh (n 5).

⁴³ Pranesh (n 5); The Copyright Act 1957, ss 14, 40 and 41.

⁴⁴ *ibid.*

⁴⁵ *Vernor v Autodesk Inc.* 621, F 3d 1102 (9th Cir 2010).

b. Foreign direct investment

The implications of this classification as sale versus communication to the public also impact the treatment of foreign investment in e-commerce companies that are engaged in such activities.

It is arguable that the current foreign exchange regulations in India treat 'buying and selling of goods' over the internet more strictly as compared to the 'provision of services' over the internet. E-commerce is defined as the buying and selling of goods and services including digital products over digital and electronic networks.⁴⁶ Hundred per cent foreign investment is permitted for the sale of services through e-commerce under the automatic route (i.e. without government approval).⁴⁷ While hundred per cent foreign investment is permitted in e-commerce companies engaged in the buying and selling of goods, their activities are subject to restrictions. Such companies must ensure that they are either engaged only in business to business (B2B) activities (business to customer (B2C) i.e. retail trading is strictly regulated and is subject to foreign investment caps and as well as government approvals beyond certain caps); or they must operate as 'marketplaces.' A marketplace only facilitates transactions between buyers and sellers and companies engaged in providing the marketplace cannot own inventory.

The view of the Standing Committee and the Bombay High Court make it clear that a permanent download of a digital product would amount to a sale (in the absence of a limited licence agreement). Therefore, e-commerce companies that are foreign-owned or controlled that permit permanent download of digital goods such as music, books, etc. may be considered as engaging in the 'buying and selling of goods' and will have to comply with various FDI restrictions regarding B2C business.⁴⁸

If, however, the provision of copyrighted content through digital formats is classified as a 'communication to the public' i.e. provision of a service where there is no transfer of ownership of goods, foreign investment in the e-commerce entity may be permitted to the maximum extent and through the automatic route with much lesser restrictions.

⁴⁶ Foreign Exchange Management (Non-Debt) Rules 2019 (NDI Rules).

⁴⁷ *ibid.*

⁴⁸ *ibid.*

IV. CONCLUSION

The implications of ownership and resale rights in the virtual world are complicated and require focused consideration. Secondary markets contribute to the public good as they give consumers additional opportunities to purchase copyrighted works usually at prices below the retail price, allow consumers to continue to obtain copies of works after the owner has ceased distribution and allow the proliferation of businesses. At the same time, resale rights, especially in the digital scenario, come with an increased risk of piracy and possible devaluation of original content. Further, the classification of different modes of delivery of content has significant foreign exchange implications. While coming up with a solution, courts should create limited and special carve outs, ensure that the normal exploitation of the work is not hampered and rights of stakeholders are not unreasonably prejudiced.

Technology and the widespread reach of the internet may slowly render permanent downloads unnecessary. Even so, the concept of downloads is not completely extinct. The existing lacuna in law on this subject should be resolved to ensure that the digital supply of content – be it in the form of content required to be permanently downloaded or streamed online – is not riddled with ambiguities and uncertainties. Clarity on the treatment of such supply of content is desirable for everyone – users, businesses and the economy as a whole.