
THE DOCTRINE OF COPYRIGHT EXHAUSTION IN SOFTWARE UNDER INDIAN COPYRIGHT ACT: A CURSORY GLANCE

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ABSTRACT

This study provides that copyright exhaustion serves an important social function of reducing the cost of information costs. Without it, buyers will be required to waste time and resources inquiring about their ability to resell copyrighted work. Because resale rights are generally regarded as desirable by society, the law should ordinarily grant them to buyers. There are costs associated with copyright exhaustion. The major drawbacks included a decline in the incentives to innovate as well as a regressive distributive effect as a result of copyright exhaustion's restriction on some price discrimination methods. The breadth of copyright exhaustion should be determined by the balance of these benefits and costs. This study applies the doctrinal method and explores the preferred scope of copyright exhaustion. The study argues that the copyright owner should not be prevented from exercising control over the commercial importation of copyrighted work or distributions of digital work. However, copyright exhaustion should be restricted and the copyright should not be allowed to bypass it by including magic words in their standard-form agreements. The study will examine Article 14 of the Indian Copyright Act 1957 with Art. 30 of the copyright. The present study shall briefly examine the copyright law on the applicability of doctrine in Indian copyright jurisprudence.

Keywords: Exhaustion rule, Copyright infringement, copyright monopoly, software, and IP protection

Introduction:

The core principle of copyright exhaustion is known as the first sale doctrine, this doctrine states that once the copyright owner transfer ownership of copyright work he loses the ability to control over the future distribution of those copies and the buyer is free to transfer the copies as they please.¹ The notion of exhaustion is to restrict the IP owners from benefiting perpetually from reselling IP-based products. The IP owner loses his right once the IP product has been conveyed to the buyer and the buyer of the IP product can resale under the first sale doctrine.²

Ownership confers the right to sell, lend, lease or otherwise dispose of that copy under the first sale doctrine. This article addresses this challenge by reexamining the rationale for exhaust standards in the light of recent technological, legal, and economic advancements. It finds that copyright exhaustion is justifiable as a technique for lowering information costs in the copyrighted product's market.

Due to the rapid growth of the digital world applying this principle copies can be easily transmitted between the counties and the copyrighted work can be copied and distributed physically or digitally rapidly is challenging. This challenge is exacerbated because copyright exhaustion is theorized. The prevailing wisdom has accepted an appealingly simple explanation about the function of the copy ownership system for over a century.

The present study offers elements that courts and policymakers might examine in implementing exhaustion rules more flexibly in particular contexts, based on classic IP exhaustion doctrine rationales. In determining whether the distribution right was exhausted, the court had to determine whether downloading a copy of a computer program that is governed by a user license agreement may be regarded as a first sale. This rationale highlights the information problems that lack of copyright exhaustion and greater control of subsequent distribution may bring about in the market. Exhaustion applies only to software copies but not to other digital copies downloaded from the internet.

On the product side of the computer programs, the following are categories are available in the market: firstly, Propriety software is copyrighted and branded for commercial use and personal

¹ VIDYA-MITRA, EXHAUSTION OF IPRS (2015), <https://www.youtube.com/watch?v=VH62ApYsPRI> (last visited Feb 20, 2022)

² Aaron Perzanowski & Jason Schultz, *Copyright Exhaustion and the Personal Use Dilemma*, MINNESOTA LAW REVIEW 78

computer. Microsoft leads the segment with a wide range of competing players in the accounting, publishing, e-learning, banking, and other sectors. This software is usually available off the shelf and online orders are based on the license agreement.³

Shareware software is made available for a limited period of free use and after customer satisfaction is purchased through a license agreement. In this type of software, the free version is a limited version at the end of the period, designed to stop working and where the buyer has to choose to buy and register a user. The source code is copyrighted and the customer cannot change it for permanent use.

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Freeware software is made available that can be used by customers and those who are satisfied can pay a profit to the software owner and can distribute this software to others to try the same. The customer however is not able to sell the software as the copyrighted is still in the compiler and the sole right of the customer is to use and distribute it to others for free.⁵

Open software is open-source, where the recipient is free to change the source code and modify it according to his or her needs. The only condition is that the original author of their efforts as agreed in the sale, for instance, Linus is the most advanced of these software types.⁶

Software alternatively called the computer program is a creative work under IPR and qualifies for protection under IPR based on the value of its creativity –dubbed as literary work fall under the copyright regime for protection as intellectual property.⁷

A computer program is considered a literary work written down, recorded, or otherwise reduced to material form. Copyright exists in the software provided sufficient efforts or skills

³ V.C. VIVIEKANANDAN & G.S. SRIVIDHYA, INTELLECTUAL PROPERTY RIGHTS IN CYBER SPACE 46 (2005)

⁴ *Id.* at 47

⁵ *Id.* at 49

⁶ B.N. PANDEY, INTELLECTUAL PROPERTY RIGHTS 87 (Faculty of Law, Banaras Hindu University) (2003)

⁷ *Id.* at 89

have been extended to give it a new and original character. The copyright Act, of 1957 did not refer to the term computer program. By the copyright Act 1984, the definition section 2 (o) has been amended and added to the computer program.

Genesis of Exhaustion Doctrine

The doctrine of exhaustion in IPR can be traced back to the work of German jurist Josef Kohler (1849) in Europe who remarked on the principles of the connection between the different acts of exploitation.⁸ According to this principle, legally recognized activities involving the economic exploitation of a patent are linked to the movement the invention is created and end up dictating the scope of all earnings a right holder may get from it. Other acts fall outside the scope of the legal entitlement and if the patent is deemed exhausted the right holder is not then entitled to any further profits.⁹

1. REWARD THEORY

The doctrine was recognized by the German court in the field of trademark law and copyright. The essential principle of the theory of reward which the right holder might earn by distributing copies of a copyrighted work or items identified by a trademark is fundamentally tied to the premise of the connection between distinct exploitation activities.¹⁰

2. FULL OWNERSHIP THEORY

According to this rationale, the exhaustion theory is to provide the purchaser with a copy of work that includes a bundle of rights normally assigned to property; once ownership of a copy is acquired, the owner is presumed to be entitled to exercise all rights associated with the legal status of the property.

3. MARKET AND LEGAL CERTAINTY PROTECTION THEORY

A third rationale for the exhaustion of IPR is based on the idea of protecting the market and legal certainty. Restricting right holders' control over distributed copies of work serves to protect legal and economic exchange and to prevent transaction costs that would arise if

⁸ Antoni RubiPuig, *Copyright Exhaustion Rationales and Used Software*, 21, 162 (2013)

⁹ *Id.* at 162

¹⁰ COPYRIGHT | ARTPATENT, <https://www.artpatent.eu/en/services/copyright/> (last visited Feb 28, 2022)

acquirers of a copy had to negotiate a new license or authorization every time they envisioned a new form of use for the copy.

In this context, a computer program's interoperability with hardware or other software may advocate a greater degree of right holder control over these prospective uses. The prospects of productive interaction with other products, or services suggest may be reasonable and socially desirable to extend the scope of the control that the right holder may continue exercising once the product has left their commercial sphere. More scope for modulating the effects of the exhaustion or for opting out of its legal regime should perhaps be provided.

International Exhaustion rule

The term exhaustion refers to the generally accepted principle in IP law that a right owner's exclusive right to control the distribution of protected item lapses after the first act of the distribution. Once the item has been put on the market by or with the consent of the right of the owner, the exclusive distribution right is exhausted (which is why the principle is referred to in some jurisdictions as the first sale doctrine.¹¹

For example, a copyrighted DVD or a patented mobile phone, one is then free to in addition to sell, transfer or otherwise distribute it without further authorization from the right holder. This entitlement does not, of course, affect any other exclusive rights the right holder may enjoy, for example, the right to authorize activities such as reproduction or communication to the public – so the entitlement to distribute a legitimately purchased CD does not in itself extend to an entitlement to make a reproduction or public performance of the recorded music.

While it is generally accepted that IPRs are exhausted within the jurisdiction where the first sale takes place outside the jurisdiction in question? The answer to this depends on whether the country applies a regime of national exhaustion or international exhaustion and thereby prevents or allows so-called “parallel importation.”

National exhaustion means that right owners' distribution rights are only considered exhausted once they put the protected item on the market in that country. Distribution rights would not be considered exhausted concerning protected items that were only put on the market in another

¹¹ ANTONY TAUBMAN & JAYSHREE WATAL, A HAND BOOK ON THE WTO TRIPS AGREEMENT 18 (Cambridge University Press) (2012)

country, so those right holders can still control the sale or import of such items into the first country. For example, in a country with a national exhaustion regime, copyrighted and related rights holders can prevent the importation into that country of DVDs that they have sold in other countries. Thus the parallel import of products first sold on other markets is illegal in a country with a national exhaustion regime.

In contrast, if a country has an international exhaustion regime, this means that the right owner's distribution right in that country is exhausted regardless of where the first act of distribution took place. Thus, right holders cannot use IPR to prevent the importation and sale of DVDs that they have sold in another country. Therefore, in countries with an international exhaustion regime for copyright and related rights, parallel imports are legal.

Note that the products, imported as parallel imports are not counterfeit or pirated goods, but genuine or original products that have been sold in other countries with the authorization of the right holder; they do not infringe IPRs in the country of origin.

An alternative approach is taken in some free trade areas (FTAs) or custom unions, namely national exhaustion: in this case the right holder's IPRs are exhausted once the first sale takes place anywhere within the specified region. It is generally understood that national exhaustion favors market segmentation as well as differential pricing, product differentiation, and different release dates, whereas international exhaustion facilitates parallel importation of the same product sold at lower prices in other countries. During the Uruguay Round Negotiations, members negotiated a text that left them considerable discretion as to how to regulate the question of exhaustion.¹²

Article 6 provides that, for the purposes of dispute settlement under the TRIPS agreement, nothing in the Agreement shall be used to address the issue of the exhaustion of intellectual property rights on the condition that the national and MFN treatment obligations are complied with.¹³ This proviso was clarified in the 2001 ministerial Declaration on the TRIPS Agreement and Public Health. It is confirmed that the effect of the TRIPS provisions relevant to exhaustion of IPRs was to leave each Member free to establish its regime for exhaustion without challenge,

¹² *Id.* at 18

¹³ *Id.* at 19

subject to the MF and national treatment provisions of Articles 3 and 4.¹⁴

Art. 6 of the TRIPS agreement does not define exhaustive continue during negotiations due to its impact on free trade¹⁵. WTO members can adopt any regime of exhaustion. WTO members decided to adopt a particular regime of exhaustion that cannot be challenged under the dispute settlement mechanism, However WTO members must provide National Treatment and Most Favoured Nation treatment to nationals of all WTO members. WTO members in implementing any regime of exhaustion cannot violate other provisions of the agreement.¹⁶

The Berne Convention for the protection of Literary and Artistic does not highlight this doctrine of exhaustion¹⁷ however the TRIPS agreement explicitly states that “*nothing in this agreement shall be sued to address the issue of the exhaustion of Intellectual property rights.*”¹⁸ Art. 11 TRIPS provides the rental right to the computer program. Indeed, copyright exhaustion can invalidate many price discrimination methods by making resale permissible. Specifically, legal systems differ in answering two questions: first, what transaction triggers exhaustion, and second in what way does exhaustion narrow the scope of the exclusive rights.¹⁹ While an authorized sale of copyrighted goods typically triggers exhaustion, an authorized in foreign countries may not. In countries that apply a regime called national exhaustion such as India. Only a domestic sale triggers exhaustion. In those jurisdictions, the copyright owner’s written permission is required to sell items that were first sold in another country. The copyright owners de facto receive an exclusive right over importation.²⁰

In other countries, those implement international exhaustion and finally regional exhaustion triggered by an authorized sale within a certain region. In Israel, after exhaustion, commercial renting is prohibited, but noncommercial lending by public libraries is allowed even without the compensation of the author.²¹

¹⁴ *Id.* at 19

¹⁵ TRIPS - ARTICLE 6 6, <http://www.cptech.org/ip/texts/trips/6.html> (last visited Feb 28, 2022)

¹⁶ WTO | INTELLECTUAL PROPERTY (TRIPS) - FACT SHEET - PHARMACEUTICALS - 2, https://www.wto.org/english/tratop_e/trips_e/factsheet_pharm02_e.htm (last visited Feb 28, 2022)

¹⁷ SUMMARY OF THE BERNE CONVENTION FOR THE PROTECTION OF LITERARY AND ARTISTIC WORKS (1886), https://www.wipo.int/treaties/en/ip/berne/summary_berne.html (last visited Feb 28, 2022)

¹⁸ WTO | INTELLECTUAL PROPERTY - OVERVIEW OF TRIPS AGREEMENT, https://www.wto.org/english/tratop_e/trips_e/intel2_e.htm (last visited Feb 15, 2022)

¹⁹ 2015-IPM-COPYRIGHT-EXHAUSTION.PDF

²⁰ PARALLEL IMPORTS AND COPY-RIGHT - INTELLECTUAL PROPERTY - INDIA, <https://www.mondaq.com/india/copyright/854562/parallel-imports-and-copy-right> (last visited Feb 28, 2022)

²¹ RubiPuig