Question B
To what extent does the principle of exhaustion of IP rights apply to the on-line industry?

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In recent years, on-line industry had – and is having – an extraordinary increase and developments. According to Eurostat, in the EU-28, enterprises realised that 14 % of their total turnover came from e-commerce during 2012, consisting of orders via a website or via EDI-type messages. In fact E-commerce enables enterprises to establish their presence on the market at national level and also to extend their economic activities beyond national borders.

The scope of the Questionnaire is to examine new developments in the application of the principle of exhaustion of IP rights to the on-line industry in national law.

Recent decisions in Europe and in the Unites States (in Europe, EU Court of Justice C-128/11 of July 3 2012 - the Oracle Case; in US, Supreme Court n. 11-697 of March 19, 2013 and US Supreme Court n. 11-796 of May 13, 2013) have brought to new attention the principle of exhaustion of IP rights, and, in general, new interest to the "on-line industry" in itself, and in its relation to IP rights.

1. Exhaustion of IP rights

Depending on the effected IP right the regarding Austrian Act defines the "principle of exhaustion", which is generally applied according to the words of the Act by the Austrian courts – see the cited case law by the Austrian Supreme Court; e.g.:

1.1 Exhaustion of Copyright in Austria

By Section 16 Austrian Copyright Act the author of a work has the exclusive right to the first (!) distribution of (copies of) his work. By virtue of this right, (copies of) the work may not be offered for sale or put into circulation in such manner that the work is made available to the public without the author's consent. It is also worth mentioning that for as long as the work remains unpublished, the right of distribution shall, pursuant to Section 16 (2) Austrian Copyright Act, include the exclusive right to make the work available to the public by publicly posting, printing, hanging, exhibiting or similarly using copies thereof.

However, pursuant to Section 16 (3) Austrian Copyright Act the right of distribution shall not extend to (copies of) the work(s) which, with the authorization of the person entitled thereto, has/have been put into circulation by transfer of the property rights therein within the EEA ("exhaustion within the EEA").[1] Contractual limitations cannot prevent the exhaustion within the EEA.[2]

On the other hand, according to the wording of the Austrian Copyright Act except the right of distribution, other rights of exploitation based on the Austrian Copyright Act do not exhaust, even if

[1] Austrian Supreme Court on May 11, 2012, 4 Ob 85/12x.
[2] Austrian Supreme Court on June 20, 2006, 4 Ob 47/06z.

the work has been put in circulation within the EEA.[3] The Austrian Copyright Act explicitly states that the exploitation right to rental is not subject to the exhaustion of rights.[4] With respect to lending, the Austrian Copyright Act replaces the non-exhaustion through a right to remuneration.

(Also) in Austria it remains unclear if – and to what extend - based on Article 34 to 36 TFEU the so called "general principle of EU-wide exhaustion of IP-rights" can be applied on copyright matters going beyond the above.

1.2 Exhaustion of Trade Mark Right in Austria

By Section 10b Austrian Trade Mark Act the trade mark right shall not entitle the proprietor to prohibit a third party from using the trade mark in relation to (the concrete)[5] goods which have been put on the market within the EEA under that trade mark by the proprietor or with his consent.

Consequently, to trade mark rights the "principle of exhaustion within the EEA" applies in Austria,[6] meaning that then any use of the exhausted trade mark for the regarding goods cannot be prohibited, including advertisement for those goods.[7] As the "within the EEA" clearly shows, the use of the trade mark outside the EEA does not lead to an exhaustion of the trade mark right in Austria.[8] However, if the trade mark rights are exhausted within the EEA it is irrelevant if the goods are exported to outside the EEA and then again reimported to the EEA – the trade mark right remains exhausted.[9]

The Austrian case law had applied this principle of exhaustion within the EEA even before it was explicitly mentioned in the Austrian Trade Mark Act.[10]

Also in Austria the term "put on the market" triggering the principle of exhaustion within the EEA has to be interpreted according to Article 5 of the Trademark Directive:[11] Therefore, the factual or legal possibility to handle the good is of relevance.[12] The pure fact that the goods have been put on the market by the proprietor leads to the consequence of exhaustion – a (further) consent by the proprietor is not required.[13]

It remains unclear if - in case the proprietor belongs to a group of companies – the entire group is considered to be "the proprietor" in terms of Section 10b Austrian Trade Mark Act.[14] If this was the case – which is likely – any putting on the EEA-market by whatever company of the group leads to the exhaustion of the trade mark rights in the regarding goods.

If the good is put on the market within the EEA by a third party, the consent by the proprietor is needed to trigger the principle of exhaustion.[15] The consent can be given in any form; however,

[3] Austrian Supreme Court on May 11, 2012, 4 Ob 85/12x.
[4] Austrian Supreme Court on February 18, 2003, 4 Ob 235/02s.
[5] Austrian Supreme Court on September 28, 1999, 4 Ob 206/99y.
[6] Austrian Supreme Court on April 27, 1999, 4 Ob 63/99i.
[7] Austrian Supreme Court on February 15, 2000, 4 Ob 33/00g.
[8] Austrian Supreme Court on September 28, 1998, 4 Ob 223/98t.
[9] Austrian Supreme Court on November 18, 2003, 4 Ob 214/03d.
[10] Austrian Supreme Court on October 15, 1996, 4 Ob 2252/96x.
[11] Austrian Supreme Court on December 16, 2003, 4 Ob 213/03g.
[12] Austrian Supreme Court on November 18, 2003, 4 Ob 210/03s.
[13] Austrian Supreme Court on November 18, 2003, 4 Ob 210/03s.
[14] Pro exhaustion: Austrian Supreme Court on September 28, 1999, 4 Ob 206/99y; contra exhaustion: Austrian Supreme Court on November 18, 2003, 4 Ob 210/03s.
[15] Austrian Supreme Court on November 18, 2003, 4 Ob 210/03s.

implicit consent cannot be argued if the proprietor labels goods for the EEA in a specific form and the goods at stake are not labeled in this manner.[16]

The user of the trade mark has the burden of proof that the principle of exhaustion applies.[17]

It is worth mentioning that irrespective of the exhaustion of the rights a trade mark infringement requires the use of the trade mark by the infringer: If the (non-exhausted) but with the trade mark labeled good becomes "only" part of another good, differently labeled and advertised under the latter, the trade mark of the first is generally not used and therefore not infringed.[18]

If the identical trade mark is registered for different proprietors in different countries and therefore used in different countries, no principle of exhaustion can be applied regarding the goods not put on the market by the regarding proprietor.[19]

As the wording of the Act shows, exhaustion does not apply on service trade marks.[20]

Furthermore, pursuant to Section 10b (2) Austrian Trade Mark Act the principle of exhaustion within the EEA shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialisations of the goods, especially where the condition of the goods is changed or impaired[21] after they have been put on the market. Although generally any change of the goods effect the interests of the proprietor and therefore any change provides legitimate reasons to oppose further commercialisations of the goods, pursuant to also in Austria accepted case law "slight changes", e.g. repacking, adding manuals, etc., such legitimate reasons do not exist if (i) otherwise an artificial partitioning of the markets exists, (ii) the quality of the goods is not impaired, (iii) the consumers are not mislead, (iv) the reputation of the proprietor is not negatively affected and (v) the proprietor is informed.[22] Again the burden of proof lies with the user.

The above said regarding the "Austrian principle of exhaustion of trade mark rights within the EEA" applies also on International Trade Marks with protection in Austria (Section 2 (2) Austrian Trade Mark Act).

For exhaustion of Community Trade Marks see Article 13 CTMR.

1.3 Exhaustion of Design Right in Austria

Pursuant to Section 5a Austrian Design Act the rights granted by a registered Austrian design shall not extend to acts concerning a product when the product is put on the market within the EEA by the right holder or with his consent.

There exists – as far as the author is aware – no Austrian case law regarding the exhaustion of design rights.

For exhaustion of Community designs see Article 21 CDR.

[16] Austrian Supreme Court on January 29, 2002, 4 Ob 22/02t.
[17] Austrian Supreme Court on August 27, 2013, 4 Ob 122/13i.
[18] Austrian Supreme Court on November 8, 1994, 4 Ob 133/94.
[19] Austrian Supreme Court on September 28, 1999, 4 Ob 206/99y.
[20] Austrian Supreme Court on September 28, 2004, 4 Ob 167/04v.
[21] Austrian Supreme Court on September 28, 2004, 4 Ob 167/04v.
[22] Austrian Supreme Court on January 30, 2001, 4 Ob 270/00k.

1.4 Exhaustion of Patent Right in Austria

In Austria, exhaustion of patent rights is not expressly stipulated by legal provisions, with one exception, namely Section 22c Austrian Patent Act, which exclusively refers to patents for biological material: If patented biological material is put on the market, the effect of the patent does not extend to such material, which was created by generative of vegetative reproduction, if the reproduction was the purpose for which the material was put on the market.

Consequently, regarding patented biological material an "international exhaustion of patent rights" applies in Austria.

Regarding all other patents an EU-wide exhaustion has to be based on Article 34 to 36 TFEU that generally leads to the application of the "general principle of EU-wide exhaustion of IP-rights".

1.5 Exhaustion of Plant Variety Right in Austria

Pursuant to Section 4 (5) of the Austrian Plant Variety Act, the plant variety protection does not extend to regarding material and also not to products directly obtained from a protected variety, which are sold or distributed by the proprietor or with his consent.

Consequently, an "international exhaustion of plant variety rights" applies in Austria.

However, exhaustion does not apply on derived propagation material, which was used for a new production of propagating material or which is exported into a country that does not provide equivalent plant variety protection.

1.6 Does the "General Principle of Exhaustion within the EU" exist in Austria?!

As shown above, the "principle of exhaustion of IP rights" is laid down in the specific context of the regarding IP right. Consequently, the Austrian case law on exhaustion refers to the rules in the regarding Austrian Acts. Therefore, it remains unclear if a "general principle of exhaustion of IP rights" exists in Austria that is going beyond the above reported exhaustion. The Austrian approach is to provide for specific regulations on the exhaustion of the regarding IP right and subsidiary the Article 34 to 36 TFEU (might) apply.

2. Exhaustion of IP rights in Austria – influences by EU (case) law?!

The Austrian legislator is – especially in the field of IP-laws – implementing the EU law with high accuracy. Consequently, the EU principle of exhaustion of IP rights is – as far as covered by specific EU Regulations and / or Directives – also implemented in the Austrian laws.

It is worth mentioning that Austrian courts are the ones referring – especially in relation to the size of Austria – the most IP-, IT- and unfair competition matters to the ECJ for guidance.[23] Especially due to the fast proceedings on preliminary injunctions up to the Austrian Supreme Court, the Supreme Court has in many cases issued the world wide first decisions by a supreme court related to "new" issues in the field of IP and IT, eg non-registered community designs,[24] domain names,[25]

[23] A detailed report on the references for a preliminary ruling from Austrian courts between 2009 and 2012 can be found under https://www.ris.bka.gv.at/Dokumente/Ebmj/ERL_07_000_20120109_001_15116EU_1_EU_12/07_20120109_15116EU1EU12_01.pdf (German only).

[24] Austrian Supreme Court on 13.02.2007, 4Ob246/06i.

[25] Austrian Supreme Court on 24. 2. 1998, 4 Ob 36/98t.

keyword advertising,[26] etc. In line with this referrals the Austrian courts are – especially in IP-matters – following the EU law and the ECJ case law in nearly every detail and therefore, the EU regarding principles of exhaustion of IP rights are heavily influencing the national case law. The above cited decisions by the Austrian Supreme Court on the exhaustion of the regarding IP-rights are nearly always referring to or at least citing EU-law or ECJ case law.

However, decisions respectively Acts or developments outside the EU are generally not reflected in Austrian case law.

3. "Traditional industry" / "On line industry" in Austria – and Exhaustion of IP rights

3.1 Factual background

Austria is one of the 12 richest countries in the world in terms of GDP (Gross domestic product) per capita. Looking on "traditional industry" in Austria, although some industries are global competitors, such as several iron and steel works, chemical plants, oil corporations, cardboard producers and gaming machine producers that are large industrial enterprises employing thousands of people, most industrial and commercial enterprises in Austria are relatively small on an international scale. Those SME (small and medium enterprises) are relatively "flexible". As also – or even especially – the Austrian society can be qualified as an "Information Society", meaning that creation, distribution, use, integration and manipulation of information is a significant economic, political, and cultural activity, many Austrian SMEs fall under the "new economy": Most important for Austria is the service sector generating the vast majority of Austria's GDP. Vienna has grown into a finance and consulting metropole and has established itself as the door to the East within the last decades. Viennese law firms and banks are among the leading corporations in business with the new EU member states.

Eight out of ten Austrian households were in 2013 equipped with internet access (81%); in 80% of all households broadband connections were used, 59% used it fixed broadband connections via a line (e.g. cable, fiber), 48% were mobile broadband over cellular network.[27] In January 2013 98% of Austrian companies had 10 or more employees access to the Internet; 86% of all companies were present with a website on the Internet, although this depends on the company size as before:[28] While almost all large enterprises (250 or more employees) have a web presence (98%), there are at medium-sized companies (50-249 employees) 94% and for small enterprises (10-49 employees), 84%.

In Austria in 2011, according to OECD definition, 14,449 companies with 92,474 employees and annual revenue of EUR 25.7 billion were in the "online industry":[29] Despite the poor economy of the past few years, all these values have increased since 2009.

The Information Society, and all issues related to it, is a classic interdisciplinary matter that is not restricted to individual subjects (e.g. internet, TV, broadband, e-Government, etc.), but rather requires integrated coordination. Although domestic initiatives and measures relating to the Information Society are carried out by the respective Federal Ministries under their own responsibility (e.g. eHealth in the Austrian Federal Ministry for Health), eLearning in the Austrian Federal Ministry for Education, the Arts and Culture), infrastructure matters in the Austrian Federal

[26] Austrian Supreme Court on 19.12.2005, 4 Ob 194/05s.
[27] http://www.statistik.at/web_de/statistiken/informationsgesellschaft/ikt-einsatz_in_haushalten/
[28] http://www.statistik.at/web_de/statistiken/informationsgesellschaft/ikt-einsatz_in_unternehmen/index.html
[29] http://www.agnesstreissler.at/wp-content/uploads/2009/06/Internet-Economy-AT.pdf

Ministry for Transport, Innovation and Technology) etc.), the coordination of the Information Society agenda is undertaken by the Austrian Federal Chancellery Constitutional Service.[30]

3.2 Overview on "E-Commerce Law" in Austria

Although most IP-Acts in Austria concentrate on a technologically neutral character, there are certain differences between rules applied on old and new economy, the latter used as a synonym for e-commerce / m-commerce. E.g. the Austrian E-Commerce Act implementing the European E-Commerce Directive applies to services that are rendered via electronic processing and storage systems. Furthermore, there are special provisions on distance selling contracts which are contained in Austrian Consumer Protection Acts.

One specific of the Austrian E-Commerce Act is a strong focus on the "Country-of-Origin Principle": It provides that in general the regulations apply where the service provider has its principal place of business. Consequently, a provider with a registered office in Austria must comply with the Austrian Trade Act and related regulations governing supply and distribution of goods and services. Once the Austrian requirements are met, however, the provider may – in general – also conduct its activities in other EU member states without additional requirements.

Consequently, - although the Austrian courts generally follow the technologically neutral character of the laws – the Austrian case law reflects the distinction made by the regarding acts.

3.3 Exhaustion of IP rights and Austrian "on line industry"

The question of "online exhaustion of IP rights" has been and actually still is lively discussed regarding the Austrian Copyright Act:[31]

The reason for this discussion is that the wording [*Werkstücke*] of Section 16 Austrian Copyright Act indicates that the principle of exhaustion would only be applicable on material (copies of) works and not on "immaterial" (copies of) works. However, also before ECJs *UsedSoft / Oracle*-decision[32] the Austrian case law did not stick to this distinction: The online-transfer of photos that were (however) automatically printed out by the recipients was considered as a distribution in terms of Section 16 Austrian Copyright Act.[33] Pursuant to case law also the publishing of photos on the Internet leads to a distribution in terms of the Austrian Copyright Act.[34]

The discussion has become more intense in the context of online-distribution of e-books, music and software. Regarding the latter reference is made to ECJs *UsedSoft / Oracle*-decision, which is however based on *lex specialis*, namely the Software Directive. Consequently, there is an ongoing discussion if offline- and online-distribution of "other works", meaning not software, but especially

[30] http://www.bundeskanzleramt.at/site/7900/default.aspx

[31] E.g.: *Winklbauer / Geyer,* Der urheberrechtliche Erschöpfungsgrundsatz im Zeitalter der Digitalisierung - Auswirkungen der Used-Soft-Entscheidung des EuGH, ZIR 2014, 93; *Enchelmaier*, Erschöpfung des Rechts zum (Weiter-)Verkauf "gebrauchter" Software, GPR 2013, 224; *Bauer / Homar,* Die Bedeutung von Echtheitszertifikaten im Gebrauchtsoftwarehandel, ZTR 2013, 98; *Schmitt* in *Jahnel/Staudegger/Thiele*, Jahrbuch Geistiges Eigentum 2013, 247: Der Fall "UsedSoft" und seine vertrags- und urheberrechtlichen Implikationen; *Wendehorst,* Der Anwendungsbereich des Gemeinsamen Europäischen Kaufrechts, AnwBl 2013, 345; *Schmitt*, Der Online-Vertrieb von Software nach dem EuGH-Urteil "UsedSoft", MR 2012, 256; *Kulka*, EuGH zum Handel mit "gebrauchter Software": Geburtsstunde eines blühenden Geschäftszweigs? ÖBl 2012/58; *Streit / Jung*, E-Books im österreichischen Recht, MR-Int 2012, 6.

[32] ECJ (Grand Chamber), case C-128/11, *UsedSoft GmbH v. Oracle International Corporation.*

[33] Austrian Supreme Court on October 4, 1994, 4 Ob 1091/94.

[34] Austrian Supreme Court on June 12, 2001, 4 Ob 127/01g.

music and eBooks, can respectively have to be treated differently; therefore, the following questions remain unanswered (also) in Austria: Does the online-distribution lead to exhaustion of all and any works? Even if exhaustion applies on the right of distribution, what about the right of reproduction in eBooks and online-music, which is necessary to “re-sell” “used” eBooks and online-music? Offline the principle of exhaustion applies and the purchaser is – as factually no reproduction is needed – free to sell the purchased books or music-CD. Why should there be a different treatment between online- and offline-distribution?! Reasons can be found in the wording of the Database Directive, the InfoSociety Directive and finally in Article 6 (2) of the WIPO Copyright Treaty, but also in the factual background, namely the high potential of misuse of online-distribution: Keep a copy and resell another copy. Counterargument, though: The interests in eBooks, online-music etc ultimately remain the same as in online distributed software and Digital Right Management (DRM) is suitable and commonly used to prevent the violation of the rights of the author in all fields of digitization.

In this context it is worth bringing up the issue of “putting on the market” triggering exhaustion in the light of the “potential worldwide distribution on the Internet”; in other words: Does offering on the Internet lead to world-wide exhaustion? Can geographic access restrictions and / or DRM and / or even only disclaimers prevent this? Regarding disclaimers the Austrian Supreme Court ruled that such declaration might be of relevance, but in the actual case the offering party offered trade mark infringing goods beyond its own disclaimer also on the Austrian market and therefore, the disclaimer was already on the factual bases of no relevance.[35]

However, it is common opinion in Austria that ECJs *UsedSoft / Oracle*-decision, as it is based on *lex specialis*, cannot as such be transposed respectively applied on “other digital content” and therefore, the business models of “used music”, “used eBooks”, etc seems not to be legitimate in Austria. On the other hand it seems common understanding also in Austria that there is actually no justification for not coming to the same conclusion only depending if software or other digital content are concerned. This could be legally supportet by arguments based on Article 34 to 36 TFEU respectively based on the principle of equal treatment as there seems to be no justified reasons to treat software and other digital content differently. However, as shown above, there are counter-arguments and at the end of the day it can be concluded (also) for Austria that it is up to the EU legislator to “fix this mess”.[36]

Summing up, the legal situation regarding online-copyright-exhaustion is in Austria (and Europe) still far from being clear and therefore business models based on such exhaustion, especially second-hand-software, -music and –eBooks, are still far from being safe: Their customers could pay the price, as they will be violating the author’s rights if the second-hand-use of digital content is not covered by exhaustion.

Although the following seems to be “too dramatic”, it is still worth mentioning: If online-exhaustion applies on all digital content, the long-term economic effect could be bad for everybody. A monopoly situation might be resolved and the exploitation of monopoly revenues will no longer be possible, consequently, lower profits would be a result, leading to potentially smaller incentives for innovation respectively new digital content. However, it is more likely that right holder will find ways to protect their interest: The most obvious option would be a switch to renting or leasing solutions as this cannot trigger the principle of exhaustion. Another option would be to offer “digital content as a service”, namely to only give access to the content but not to transfer it as such to the

[35] Austrian Supreme Court on March 20, 4 Ob 47/07a.

[36] Compare *Schmitt* in *Jahnel/Staudegger/Thiele*, Jahrbuch Geistiges Eigentum 2013, 247: Der Fall "UsedSoft" und seine vertrags- und urheberrechtlichen Implikationen.

customer. Then the interesting question remains, if courts will accept such measures or see them als void as only being designed to circumvent the exhaustion principle.

Nevertheless, until now there seems to be no evidence that the new decisions on exhaustion in the EU and / or the US have influenced the practices of "on-line industry" in Austria.[37] However, the reason that the consequences are not obvious might be that there has anyway been a trend to SaaS (software as a service) and that the software as such is provided as open source, but "only" the services to implement and customize the software are charged and therefore only the latter is of economic interest. A further reason could be that the practical impact – and a regarding work around – of ECJs *UsedSoft / Oracle*-decision remains still unclear: As the German national courts have not issued a final decision yet and it has remained unclear to what extend it was important to the ECJ that a "client-server-software" is subject to the decision, many practical questions in this context remain unanswered.

4. IP rights and "on line industry": infringement and remedies in Austria

As mentioned above the Austrian laws have and actually are interpreted by the Austrian courts as having a technologically neutral character. Consequently, in Austria the concept "on-line infringement" of an IP right does not differ from a traditional infringement. However, as the facts of the case differ – tangible goods vs intangible goods or services – the questions of infringement and of remedies might differ, but that is not a difference in the concept as such. The approach that IP protection has generally a technologically neutral character leads to the consequence that everything that is considered to be an infringement offline is also considered as an infringement on the digital platform respectively "Digital Single Market" by the "on-line industry".

As IP rights are excluded from the "Country-of-Origin Principle" provided by the Austrian E-Commerce Act and therefore the "Country-of-Protection/Infringement Principle" applies (see Art 8 Rom II Regulation) there is also no legal difference regarding the international dimension of infringements on "Digital Single Markets".

However, the privileges for access-, backbone-, link-, search engine-, and host-providers, as intermediaries, provided by the Austrian E-Commerce Act have to be considered. Such privileges do actually not exist in the offline world, although however in practice nobody is trying to make the postal service liable for carrying infringing goods.

Also from a pure procedural perspective there is no difference between online- or offline-IP-infringements: Austria has tight rules relating to jurisdiction and therefore the issue of forum shopping does not pose major problems. Exclusive jurisdiction in civil IP infringement proceedings lies solely with the Commercial Court of Vienna (*Handelsgericht Wien*) in 1st instance, in 2nd instance with the Higher Regional Court of Vienna (*Oberlandesgericht Wien*) and in 3rd and last instance with the Austrian Supreme Court (*Oberster Gerichtshof*). The conduction of criminal matters is generally under the exclusive jurisdiction of the Viennese Regional Court for Criminal Matters (*Landesgericht für Strafsachen Wien*).

The remedies available in case of an "on-line IP infringement" generally are

- irrespective of any fault civil claims regarding cease and desist (preliminary and permanent injunction – also in respect of threatened infringement), removal (if not interfering with third

[37] See however, that *Adobe* changed the business model for „Creative Suite®" to „Creative Cloud®".

party rights), publication of the judgement, appropriate compensation, rendering of accounts and receiving information on provenance/channel of distribution of the goods; and

- in case of infringement with fault: damages and surrender of profits;

All Austrian IP Acts provide for an appropriate compensation (reasonable royalty) irrespective of any fault of the infringing party.

Furthermore, the Austrian IP Acts provide for the possibility of the winning party that the judgment is published in regarding media (online or offline) on the accounts of the losing party. The Austrian Media Act stipulates that media are obliged to publish such decisions, however, being allowed to invoice fees applicable on advertisement in this media.

Damages and reimbursement can be claimed if the infringement was committed with fault, whereas the claimant can request the following instead of the appropriate compensation (reasonable royalty) mentioned above: In cases of culpable infringement, the right holder is entitled to

- compensation of proven damages, including lost profit; or
- the payment amounting to the profit the infringer generated with the infringement; or
- in case of gross negligence or intent a lump sum damage in the amount of double the reasonable royalty even if no real damage can be proven.

In case of extraordinary circumstances also compensation for immaterial damages can be claimed.

Requests for preliminary injunctions (cease and desist) in civil proceedings are often filed together with the full claim; however a separate filing is admissible, also after the full claim was filed. In the majority of cases, the application for an injunction will be served on the defendant (compare Article 6 ECHR), but the court may also grant *ex parte* injunctions if it can be established by the claimant that giving notice may defeat the purpose of the application. The court will form its view about the likely outcome of the definitive proceeding on the question of infringement and render its decision accordingly within a few weeks on the basis of legal opinions filed by the parties.

Other than the main proceedings the interlocutory proceedings is a “summary proceeding”, meaning that no full proof but merely *prima facie* evidence is needed. On the other hand this *prima facie* evidence has to be presented to the court in the given, short time frame. When applying for a preliminary injunction the validity of the regarding IP right might have to be evidenced.

The court may tie the issuance of a preliminary injunction to the provision of security.

If the preliminary injunction is – at the end of the day – considered to have been issued without substance, the defendant has the right to request full compensation by the requesting party.

As preliminary and definitive injunctions are in Austrian practice the most common and therefore most important claims in IP-infringement cases it is worth briefly showing how such injunctions are enforced: A petition can be filed with the court of enforcement (*Exekutionsgericht*) in respect of each act of non-compliance following the enforceability of the claim, ie in case of a preliminary injunction immediately after its service. The petition has to be served by the enforcing party to the obliged party. Based on the petition and the alleged infringement the court can impose a fine up to EUR 100,000. For each further act of non-compliance with an injunction a further petition can be filed and a new fine can be imposed. Although the petition must include a concrete and conclusive

allegation of the act of non-compliance it is not required to file any evidence of the non-compliance. However, the obliged party may initiate a (separate) proceeding in which the enforcing party is obliged to evidence the infringement. Preliminary and definitive injunctions are not effective against third parties, esp. against suppliers or customers of the infringing party, as those third parties have not been party of the proceedings. If those third parties can be sued by the right holder has to be evaluated based on the general requirements.

Preliminary injunctions are also used to enforce the rights provided by the EnforcementDir.

It is worth mentioning that the "urgency issue in interlocutory proceedings", eg existing under German law, meaning that the application for a preliminary injunction has to be filed within the shortest possible time after the right holder has become of the infringement, does not exist under Austrian laws.

Of course the enforcement of injunctions / decision against an "international on-line infringer" leads to specific difficulties if the headquarters of the "on-line industry" are located in foreign country outside the EU. Within the EU the Regulation Brüssel I applies. However, outside the EU, even when the Lugano Treaty is applicable, especially injunctions are often very difficult to enforce. Outside the Lugano Treaty the enforcement of Austrian decisions generally depend on treaties between Austria and the regarding enforcement state, whereas only very few of such treaties exist respectively are effective. However, there are always exceptions, as not all countries are that restrictive in enforcing foreign decisions as e.g. Austria itself is.

An intentional infringement of IP rights is a penal crime in Austria, that can generally be sanctioned with imprisonment. What makes criminal proceedings particularly attractive in Austria is the fact that the right holder, not the public prosecutor, has to prosecute infringers himself. As the personal interest of the right holder in defending his rights outweighs the public interest in prosecuting counterfeiters, the legislator decided that only the right holder should have competence for filing an indictment. Even if this is an additional burden for right holders, it gives them much more control over the proceeding: They can decide whether to initiate proceedings, file applications (e.g. for house searches or destruction of counterfeit goods) or terminate the proceeding, which would not be the case in criminal proceedings initiated *ex-officio*.

Although IP litigation in Austria leads to comparatively low litigation costs, the costs depend on various factors. First of all, with respect to the legal costs under Austrian procedural law, a distinction must be made between (a) court fees (*Gerichtsgebühren*), (b) attorneys' fees (*Rechtsanwaltsgebühren*) and (c) cash expenditure (*Barauslagen*) including costs for interpreters, the translation of documents, travel expenses for witnesses or experts' costs.

4. Exhaustion of IP rights in Austria – over-all advantage or jeopardizing of protection?

The purpose of granting exclusive rights – namely based on the above named IP rights – is to give the right holder the possibility to authorize or prohibit certain use (depending on the IP right). Thus, the right holder is enabled to control the exploitation of his "rights" respectively the regarding goods / works / material / plants / inventions and therefore, is willing and economical able to invent / create / produce further goods / works / material / plants / inventions for the sake of the entire community.

Granting of the above named exclusive rights has been, is and will be (more or less – however compare "legitimate acquired rights" in constitutional law) a pure political decision and not a "law of nature – *lex naturalis*". Consequently, as the existence of the exclusive rights is a pure political

decision, also its limitations are pure political decisions. The public discussion about ACTA has shown that the opinion of right and wrong by the general public is essentially different from the stipulated IP-rights – also in Austria.

Having said the above, it is difficult to answer the question if the principle of exhaustion of IP rights jeopardizes the protection of IP rights as such or is essential to balance interests in the Information Society. The latter is even more difficult, as the interests that have to be balanced are generally again subject to political decisions: If the freedom to carry out business or even more the fundamental right to property – including or nor including IP – or the fundamental right to self-determination have to be taken into account are again more or less "political believes". Such "believes" are generally changing depending on the actual position of the commentator – so depending if there is a personal interest on far-going protection of IP-rights the question might be answered differently. However, taking a closer, objective look the principle of exhaustion shall ensure a balance between the rights of proprietor on the one hand and the marketability and transferability of goods on the other hand. The latter is getting more important as the Information Society is more and more based on it, but at the same time it is essential to the Information Society that a secondary market for digital content does not destroy the bases for innovation in a broad sense. Furthermore, it is essential that such secondary market is not connected with product piracy etc.

5. Conclusion and recommendations from the Austrian Group of the LIDC

Based on the above the Austrian Group draws the following conclusions respectively recommendations:

- The Austrian Group is convinced that the principle of exhaustion of IP rights is essential to balance interests in the Information Society. However, this balance of interests has to be evaluated very carefully. As there seems to be no justified reasons to treat offline and online respectively regarding the latter software and other digital content differently, the principle of equal treatment seem to demand a uniform solution for the principle of exhaustion of IP rights:

- As ECJs *UsedSoft / Oracle*-decision is based on *lex specialis* it cannot be easily transposed respectively applied on "other digital content" or even other rights than copyrights. However, as it seems to be common understanding also in Austria that there is actually no justification for not coming to the same conclusion only depending if software or other digital content or different IP-rights are concerned Article 34 to 36 TFEU respectively the principle of equal treatment could be legal base for a general "online-exhaustion". The Austrian Group is of the opinion that, as the right holder has been able to determine the timing and the remuneration on the primary market (offline and online), the "ownership rights" of the purchaser and the marketability and transferability of (digital) contents as goods become more important than the IP rights, so that a secondary market shall be legitimate. As the legal situation of such secondary market remains unclear, it is up to the legislator(s) to clarify respectively to make such secondary market possible. For the sake of completeness: The marketability and transferability on such secondary market shall not lead to the consequence of use without remuneration to the right holders, meaning that it shall not lead to additional but only the identical use. On the other hand, the secondary market shall not be made impossible by technical measures (DRM), but such measures shall make sure that the use remains the same and is not expended.

- Although digital platforms and the world wide diffusion of internet have brought not challenges to the principle of exhaustion of IP rights, and, in general, of IP law, those challenges could be resolved by carefully balancing out the concerned interests. On the other hand, the digital platforms and the DRM have given the right holder new measures at hand that could be used to safeguard the interests without on the other hand making a secondary market technically impossible in the first place.

- Summing up, the legal situation regarding online- exhaustion is in Austria (and Europe) still far from being clear and therefore business models based on such exhaustion, especially second-hand-software, -music and –eBooks, are still far from being safe. At the end of the day it can be concluded (also) for Austria that it is up to the EU legislator to "fix this mess". Therefore, we close with the words of *Kroes*, Vice-President of the EU Commission: "[t]echnology is changing. Business models are changing. The way we consume and enjoy creative works – music, movies, games – is changing. And, if we want to keep the right balance, the legal framework has to respond."