

# Monopolising trash: a critical analysis of upcycling under Finnish and EU copyright law

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## 1. Introduction

The doctrine of exhaustion, or the ‘first-sale’ doctrine in the USA, is one of the most fundamental principles of copyright law. Under this doctrine, a rightholder must accept that copies or the originals of copyright works and other subject matter lawfully placed into circulation by or with the authorization of the rightholder, through sale or in any other form of transfer of ownership, are subsequently distributed by the lawful owner of those copies or originals, if the rightholder received proper remuneration for the initial distribution.<sup>1</sup>

The doctrine serves as a balancing mechanism to limit the right of distribution under copyright law along the interests of the society, in general, and individual owners of the copies of works, in specific. The doctrine is backed by multiple policy considerations, including primary or direct arguments (the superiority of property rights over copyrights, the reward theory and the restraint of rightholders over market control) and secondary or indirect ones (guaranteeing affordability and availability, preservation of cultural heritage and consumer protection).<sup>2</sup>

Along these lines, the doctrine of exhaustion was historically introduced to limit the control of redistributions by the rightholders. This was the case both at the national level (eg in the earliest German or US judgments and laws on the doctrine)<sup>3</sup> and much later at the international level (eg Article 8 WIPO’s Copyright Treaty on the distribution right).<sup>4</sup> The doctrine has been approached slightly differently in the European Union (EU), where the Court of Justice of the European Union (CJEU) originally introduced the doctrine to support the freedom of movement of goods and hence the functioning of the internal market.<sup>5</sup>

1 P Mezei *Copyright Exhaustion: Law and Policy in the United States and the European Union* (2nd edn Cambridge University Press Cambridge 2022) 2.

2 *ibid* 13–16.

3 *ibid* 37–42 (for EU Member States) and 72–77 (for the USA).

4 *ibid* 21–30.

5 Judgment in *Deutsche Grammophon Gesellschaft mbH v Metro-SB-Großmärkte GmbH & Co. KG*, C-78/70, ECLI:EU:C:1971:59.

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## Abstract

- Exhaustion is a fundamental doctrine of copyright law, allowing for the resale of lawfully acquired copies of protected subject matter without prior authorization and payment to the rightholder. Following the debates on parallel importation, freedom of movement of goods, property rights *v* copyright and, most recently, resale of digital files, it is time to assess the relevance of the doctrine to a sustainable economy.
- More precisely, this article addresses whether upcycling (transformative redistribution of materials based on the use of pieces/copies of inter alia works of authorship) fits into the doctrine of exhaustion. Our analysis starts with a recent opinion of the Finnish Copyright Council on the upcycling of broken tableware and follows with the critical analysis of the case law of the European Union (EU) and the USA on transformative redistributions.
- We argue that upcycling doctrinally fits into the concept of exhaustion, and—more importantly—it is supported by sound policy arguments based on the primary sources of EU law and the general aims of sustainability and circular economy.

Nonetheless, there has been some case law on both sides of the Atlantic that accepted the reliance on the





and chemical process. The reproduction of the work on the painter's canvas hence was no longer the same exact copy as the one printed on a paper poster. Consequently, the CJEU considered that the distribution right had not been exhausted in *Art & Allposters*. In *Tableware jewellery*, instead, the jewellery was made out of pieces of the same exact copies that were first sold in the Community by the company F or by its consent. The altered objects were physically the same that were placed onto the market with the consent of the rightholder<sup>26</sup> but then shattered to pieces, making them unusable for their original purpose as tableware. Altering these objects by upcycling continued their lifespan. This is exactly the point of upcycling: *items that are generally considered worthless or trash are used in innovative ways to give them new commercial value, hence fostering the circular economy*.

Equally importantly, as analysed in *Tableware jewellery*, the adaptation right (or right to make derivative works under US copyright law) might come into play in case of upcycling. First, the right of adaptation has not been formally harmonized *horizontally* by the EU legislation, hence national laws govern such a question. According to the Finnish Copyright Act Section 4.2, 'If a person, in free association with a work, has created a new and independent work, [their] copyright shall not be subject to the right in the original work'. For the purpose of adaptation, the upcycler shall create a new work of authorship based on the original one, where the reliance on the source work is more than a mere inspiration, and, hence, the original work does not fade in the derivative work. As it will be shown in Section 3, some US and European decisions ruled out the creation of such derivative works by upcyclers. This said that the threshold of protection has been set extremely low by the CJEU in recent years. It is therefore possible that upcycled products fall into the scope of copyright protection. In *Tableware jewellery*, however, the FCC found that the upcycled products were not new and independent works.<sup>27</sup> In such cases, where upcycled products fall into the scope of copyright protection themselves, it would be a question of fact, to be judged case by case, whether the upcycler has adapted the original work. Even if such adaptation would look plausible, it looks inevitable to balance the various interests at stake. In Section 4, we will put forward the argument that both policy considerations and substantive norms necessitate the consideration of the goals of a sustainable, circular economy.

*Tableware jewellery* has sparked debate in Finland about the relationship between sustainable development

and the interpretation of IP laws. The dissenting member's view has received support from, eg Max Oker-Blom, who suggested that when it comes to copyright, weight should be given to the demand for a high level of environmental protection under Article 37 of the Charter, as well as to the requirement to integrate environmental protection requirements into the definition and implementation of the EU policies and activities under Article 11 EC Treaty, in particular, with a view to promoting sustainable development.<sup>28</sup>

Although this was not the issue in *Tableware jewellery*, it is noted that upcycling may spark trade mark-related concerns as well. Even though in principle it is permitted to commercialize goods lawfully placed into circulation by or with the authorization of the trade mark holder, this principle might not apply when the condition of the product was changed after the first sale. All these said, commentators like Annette Kur and Taina Pihljarinne have strongly recommended that sustainability and circularity issues be taken into consideration in the trade mark law context as well.<sup>29</sup>

### 3. A comparative outlook at transformative redistributions

This article takes the view that the Finnish case could have been decided differently—and for that a massive amount of inspiration could have been derived from pre-existing case law from both sides of the Atlantic.

Transformative redistributions have long been treated as lawful in multiple jurisdictions. To mention a few examples: a German judgment found the reuse of postcards on packaging of chocolate boxes to be covered by exhaustion.<sup>30</sup> US courts also allowed the rebinding

28 M Oker-Blom 'IPR edistämässä kestäväää kehitystä' (2022) IPRInfo 4/2022. Available at <https://iprinfo.fi/artikkeli/ipr-edistamassa-kestavaa-kehitysta/> (accessed 3 January 2023) and M Oker-Blom 'Some thoughts on Sustainability and Upcycling from a Copyright and Trademark Law point of view' (2022) IPRInfo 5/2022. Available at <https://iprinfo.fi/artikkeli/some-thoughts-on-sustainability-and-upcycling-from-a-copyright-and-trademark-law-point-of-view/> (accessed 3 January 2023). In the Finnish discussion concerning the rule of exhaustion, Tuomas Mylly has already in 2002 illustrated the unsustainable outcomes that follow from the ever-expanding scope of exclusive rights (in the expense of users), if the InfoSoc Directive is implemented in a manner that limits the rule of exhaustion (see T Mylly, 'Käytetyn kirjan lahjoittaminen on elegantti rikos [Donating a second-hand book is an elegant crime]' (2002) 31 *Oikeus* 4 at 419–420).

29 A Kur, 'As Good as New'—Sale of Repaired or Refurbished Goods: Commendable Practice or Trade Mark Infringement?' (2021) 70 *GRUR International* 3 at 228–236; T Pihljarinne 'Repairing and Re-using from an Exclusive Rights Perspective: Towards Sustainable Lifespan as Part of a New Normal?' in O-A Rognstad and I B Ørstavik (eds) *Intellectual Property and Sustainable Markets* (Edward Elgar Cheltenham 2021) 92–100.

30 KG 26.1.2001 (5 U 4102/99) 125–126. Compare to U Loewenheim (ed) *Handbuch des Urheberrechts* (2nd edn C. H. Beck München 2010)

26 See *Art & Allposters*, C-419/13 (n 18) para 45.

27 *ibid.*, para. 45.



or reutilization of, eg purchased scarves and towels for the preparation of new handbags,<sup>31</sup> to affix lawfully purchased postcards and greeting cards on ceramic products,<sup>32</sup> as long as the defendants referred to the original rightholders on the new products. Moreover, the sale of discarded *Superman* comics with new covers<sup>33</sup> and the reselling of paperback copies in hardback<sup>34</sup> were both found compliant with the first-sale doctrine.<sup>35</sup>

For the purposes of the present analysis, most importantly, the Netherlands had its own case law related to transformative redistributions. Back in 1979, the defendant of the *Poortvliet* case cut the works of Rien Poortvliet, who was famous for his drawings and paintings of animals and gnomes, from the calendar in which they had been published and sold them attached to plywood. The decision of the Hoge Raad confirmed that there was no breach of the law because the defendant had transformed the works and had not simply resold them.<sup>36</sup> Several decades later, in *Art & Allposters*, the Hoge Raad turned to the CJEU for guidance on whether the ‘transfer’ of paintings from posters to canvas was in violation of Dutch and EU law. Art & Allposters International BV purchased lawfully produced poster copies of famous paintings and enabled its customers to order copies of the works in the form of posters, framed posters, posters on wood and images on canvases. Stichting Pictoright, the competent Dutch collective rights management organisation, demanded the payment of royalties for each copy sold. It argued that the original, paper-based copies were ‘adapted’ to canvas format.

The defendant claimed that the right of distribution was exhausted when the original posters were put on to the market and so it was entitled to resell them, regardless of the format of the new copies.<sup>37</sup>

The crux of the dispute was whether exhaustion ‘applies in a situation where a reproduction of a protected work, after having been marketed in the European Union with the copyright holder’s consent, has undergone an alteration of its medium, such as the transfer of that reproduction from a paper poster onto a canvas, and is placed on the market again in its new form.’<sup>38</sup>

The CJEU rejected both parties’ arguments and considered that the plaintiff’s claim on the adaptation of the works would be devoid of merit. The transfer of paintings to canvas clearly lacked the necessary creation of a new original work of expression.<sup>39</sup> The defendant’s arguments did not convince the Court either because, regardless of the fact that Art & Allposters purchased the paper copies lawfully, it still did not gain authorization to reproduce the copies.<sup>40</sup> Based on the text of the InfoSoc Directive, the international copyright norms and the pre-existing CJEU jurisprudence, the judges rightly concluded that ‘the EU legislature, by using the terms “tangible article” and “that object,” wished to give authors control over the initial marketing in the European Union of each tangible object incorporating their intellectual creation.’<sup>41</sup> The CJEU considered the transfer to canvas, that is, the alteration of the medium, a new reproduction, which fell outside of the owner’s rights deriving from the lawful initial purchase.<sup>42</sup>

#### 4. Analysis—a need for a sustainability-oriented exhaustion doctrine

In the current state of the Planet, it is clear that the need for a circular economy supersedes the old policy arguments of IP law that support linear models of production

Section 20 Rn. 40; T Dreier and G Schulze *Urheberrechtsgesetz* (4th edn C. H. Beck München 2013) Section 17 Rn. 28.

31 Scarves by *Vera Inc v American Handbags Inc* [1960] 188 F.Supp. 255.

32 *The C. M. Paula Co v L Gene Logan* [1973] 355 F.Supp. 189; *Annie Lee et al v Deck the Walls, Inc, et al* [1996] 925 F.Supp. 576; *Precious Moments, Inc v La Infantil, Inc, et al* [1997] 971 F.Supp. 66.

33 *Independent News Co., Inc, et al v Harry Williams* [1951] 293 F.2d 510.

34 *Lantern Press Inc v American Publishers Co.* [1976] 419 F.Supp. 1267. On the US case law, see WA Rothnie *Parallel Imports* (Sweet & Maxwell London 1993) 268–269, 273; S Lauff, ‘Decompilation of Collective Works: When the First Sale Doctrine is a Mirage’ (1998) 76 *Texas Law Review* 4 at 881–883; JD Sanders, ‘Appropriating Artists Face Uncertainty in Interplay between First Sale and Fair Use Doctrines’ (2004) 76 *New York State Bar Journal* 4 at 19–20; MM Billah, ‘Resale of Digital Works under Copyright Laws: A Legal and Economic Analysis’ (2018) 18 *John Marshall Review of Intellectual Property Law* 123 at 135–136.

35 To the contrary: if the original authorization to sell the products containing the likeness of public figures was missing, the resale of those copies was plausibly tortious under states laws related to image rights. Compare to *Elisa Allison, et al v Vintage Sports Plaques, et al* [1998] 136 F.3d 1443; *Herbert S. Zim v Western Publishing Co* [1978] 573 F.2d 1318; *Christie Brinkley v John Casablancas, et al* [1981] 438 N.Y.S.2d 1004; *Genesis Publications, Inc, et al v Anne C. Goss* [1983] 437 So.2d 169, cert. denied, 449 So.2d 264 (1984).

36 On the judgment, see F Verkade ‘First-Sale’ or Exhaustion Doctrine in the Netherlands’ in PB Hugenholtz, A Quaedvlieg and D Visser (eds) *A Century of Dutch Copyright Law: Auteurswet 1912–2012* (deLex Amsterdam 2012) 298; C Seville *EU Intellectual Property Law and Policy* (2nd edn Edward Elgar Cheltenham 2016) 72, note 312.

37 *Art & Allposters*, C-419/13 (n 18) paras 14–21.

38 *ibid* para 23.

39 *ibid* paras 24–28.

40 *ibid* paras 29–40.

41 *ibid* para 37.

42 *ibid* para 45. On the judgment, see E Rosati, ‘Online copyright exhaustion in a post-allposters world’ (2015) 10 *Journal of Intellectual Property Law & Practice* 9 at 675–681; M Savič, ‘The CJEU Allposters Case: Beginning of the End of Digital Exhaustion?’ (2015) 37 *European Intellectual Property Review* 6 at 389–394; J Griffiths, ‘Exhaustion and the Alteration of Copyright Works in EU Copyright Law – (C-419/13) *Art & Allposters International BV v Stichting Pictoright*’ (2016) 17 *ERA Forum* 1 at 172–174; S Karapapa ‘Exhaustion of Rights on Digital Content under EU Copyright: Positive and No Perspectives’ in T Aplin (ed) *Research Handbook on Intellectual Property and Digital Technologies* (Edward Elgar Cheltenham 2020) 494–496.

and consumption.<sup>43</sup> A sustainability-oriented exhaustion doctrine is one of the first necessary steps that the IP regime must take in order to promote circularity. The exhaustion doctrine in the context of upcycling is increasingly important, as the EC is aiming to make sustainable products the norm in the EU and boost circular business models.<sup>44</sup> Moving away from the rightholder-centric ‘high level of protection’<sup>45</sup> approach also better complies with the Article 11 TFEU and Article 37 of the Charter, which set various environmental protection demands. Moreover, Article 3(3) Treaty on European Union requires the internal market to work for the sustainable development of Europe.

A sustainable (re)interpretation of the doctrine of exhaustion includes aligning it with certain other EU legislative pieces that are vital for the circular economy to function. As upcycling is all about recycling of trash, the aims and goals of the Waste Directive<sup>46</sup> ought to be taken into consideration when assessing the doctrine of exhaustion in upcycling cases. The Preamble to the Waste Directive highlights the principles of the circular economy, demanding additional measures on sustainable production and consumption by focusing on the whole life cycle of products.<sup>47</sup> Member States have a responsibility to inter alia promote the reuse and recycling of products.<sup>48</sup> To prevent waste generation, Member States must, among other things, facilitate innovative production, business and consumption models that encourage the increase of the lifespan of products and that promote reuse and repurposing of products.<sup>49</sup>

Interpreting the exhaustion doctrine in a manner which prohibits actions that improve the lifespan of a product simply does not serve the demands, aims and

goals of the aforementioned legislative pieces. In a circular economy, a rightholder-centric view on exhaustion is simply outdated and must be completely replaced.

Overall, the distribution right must be limited for the markets to function: otherwise, the rightholder would have an exclusive right to decide on the distribution of the work, including pieces of them, for the whole lifespan of such work.<sup>50</sup> This would be against the policy considerations of exhaustion as well. As indicated aforementioned, availability and affordability are the cornerstones of downstream commerce. The above-suggested interpretation of the exhaustion doctrine also has potential in fostering new types of businesses and circular innovations, such as upcycling, which is in line with the EU’s goals to build a thriving and innovative single market.

Equally importantly, exhaustion represents a special limitation to the right of distribution. As one of us has argued elsewhere, exhaustion ‘shall benefit from the doctrinal flexibilities developed by the CJEU related to other limitations and exceptions, especially the “user rights” approach. This approach relies on the fundamental rights of end-users, eg freedom of expression, and it offers the effective application of such limitations against rights holders’ exclusive rights.’<sup>51</sup>

Finally, it is worth to assess briefly the doctrine of exhaustion in the special context of works of applied art and industrial designs. Such products, which may be copyright-protected, typically have a shorter lifespan compared to eg works of fine art or literary works, as these products are used in everyday life, sometimes in rather consuming ways. In general, tableware, garments, accessories and other products of applied art break, wear out or become ‘old-fashioned’ sooner or later, which decreases their value close to zero. The need for sustainable development in these fields of industries that currently produce products with short life cycles has been acknowledged by the EC as well in the EU Textiles Strategy (2022).<sup>52</sup> The interpretation of the exhaustion doctrine suggested in this article supports the aims and goals of this strategy in the field of fashion and textiles sector, which is notorious for short lifecycle of products and can genuinely benefit from upcycling innovations. The Strategy mentions areas such as eco-design, repair and reuse as important skills needed for the green transitions.<sup>53</sup> Design that is

43 On IP’s connection with the linear economy, see eg T Pihlajarinne and RM Ballardini, ‘Paving the Way for the Environment: Channelling “Strong” Sustainability into the European IP System’ (2020) 42 *European Intellectual Property Review* 4 at 243 and J Mähönen ‘Financing Sustainable Market Actors in Circular Economy’ (2018) University of Oslo Faculty of Law Legal Studies Research Paper Series No. 2018–28 Available at <https://ssrn.com/abstract=3273263> (accessed 3 January 2023), 1.

44 See European Commission ‘Green Deal: New Proposals to Make Sustainable Products the Norm and Boost Europe’s Resource Independence’ (30 March 2022)

Available at [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_22\\_2013](https://ec.europa.eu/commission/presscorner/detail/en/ip_22_2013) (accessed 21 November 2022).

45 Preamble to Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonization of certain aspects of copyright and related rights in the information society, Recitals 4, 9. The ‘high level of protection’ approach has also been described as a ‘strong property rights’ approach in IP literature. See T Pihlajarinne and RM Ballardini (n 43) 241–243.

46 Directive (EU) 2018/851 of the European Parliament and of the Council of 30 May 2018 amending Directive 2008/98/EC on waste.

47 *ibid* recital 1.

48 *ibid* recital 20.

49 *ibid* recital 29.

50 U-M Mylly, ‘Digital Exhaustion of Copyright and Distribution Logic of Copyrighted works’ (n 25) 625.

51 P Mezei, ‘Hop on the Roller Coaster – New Hopes for Digital Exhaustion?’ (2022) 71 *GRUR International* 11 at 1017.

52 European Commission, Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, EU Strategy for Sustainable and Circular Textiles, COM(2022) 141 final.

53 *ibid* Subsection 3.5.

based on reuse and repair, like upcycling, is one form of green transition in the fashion sector. IP rights should not stand in the way of such transitions in the form of a rightholder-centric, very narrow interpretation of the exhaustion doctrine.

## 5. Conclusions

Since the CJEU judgment *Cofemel*<sup>54</sup> confirmed the standard of copyright protection being the same for all work categories, rightholders of industrial designs and works of applied art can more confidently rely on copyright. Although the neutral standard of originality promotes equality between creators from different fields,<sup>55</sup> it might also open a door for overreaching brand protection attempts of (powerful) design companies. If not enough attention is paid to the fair balance between the interests of rightholders and the interests of the society, copyright can be used to hinder the types of reuse that would foster sustainable development, such as upcycling. Far-reaching protection might even set obstacles for creativity itself: dialogue, inspiration and reformulation are inherent in intellectual creation and copyright is not meant to hinder them.<sup>56</sup> Limitations to exclusive rights therefore have an important role of preventing absolute monopolies.<sup>57</sup>

One important way to avoid overprotection is the correct (re)interpretation of the doctrine of exhaustion. In the context of upcycling, an interpretation that is favourable to reuse and recycling of works is particularly important in order to foster sustainable development. Transformative redistributions clearly fit into the scope of the reinterpreted (or rather properly interpreted) exhaustion doctrine. As upcycling is conceptually based on the original forms (or pieces) of copyright-protected expressions, their reuse can be covered by the distribution right. Indeed, when it comes to works of applied art, this is particularly important, as these works are often mass produced and rely on linear consumption models.

This interpretation of exhaustion is supported by sound policy arguments—both external and internal to copyright law. The underlying internal direct or primary justifications of exhaustion are broad enough to encompass upcycling. Even more, the EU's growing pressure towards a circular economy and the evolving legal basis for that, eg its most recent Textile Strategy, show the way how this old-fashioned copyright doctrine might be reconceptualized to support sustainability in general.

54 Judgment in *Cofemel—Sociedade de Vestuário SA v G-Star Raw*, C-683/17, ECLI:EU:C:2019:721.

55 H Härkönen *Fashion and Copyright: Protection as a Tool to Foster Sustainable Development* (Doctoral Dissertation, University of Lapland, Acta Electronica Universitatis Lapponiensis 311, 2021) 64–65.

56 Opinion in *Cofemel—Sociedade de Vestuário SA v G-Star Raw*, C-683/17, ECLI:EU:C:2019:363, para 55.

57 Mezei, *Copyright Exhaustion* (n 1) 7–8.