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Last sale?

Libraries' rights in the digital age

The "first sale" doctrine gives the owners of copyrighted works the rights to sell, lend, or share their copies without having to obtain permission or pay fees. The copy becomes like any piece of physical property; you've purchased it, you own it. You cannot make copies and sell them—the copyright owner retains those rights. But the physical book is yours. First sale has long been important for libraries, as it allows them to lend books without legal hurdles.

The first sale doctrine originated in the 1908 Supreme Court decision *Bobbs-Merrill Co. v. Straus*. The publisher had put this notice on its novel: "The price of this book at retail is $1 net. No dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright."

At the time, copyright owners enjoyed the "sole right . . . of printing, reprinting, publishing, and vending." The Court held that Congress did not intend for the "vending" right to extend beyond the initial sale: "one who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it. The purchaser of a book . . . may sell it again, although he could not publish a new edition of it."

The year after the Bobbs-Merrill decision, the first sale doctrine was codified in the copyright statute, and it is currently in section 109(a) of our copyright law. You own your books. At least the physical ones.

First sale produces a number of benefits. Allowing consumers to sell their copies of copyrighted works creates a competitive market for less expensive second-hand goods. The person who "can't wait" for the new Harry Potter pays for the hardback. The casual fan waits for the paperback. The impoverished Potter-lover can buy the used book. And, of course, first sale makes it possible for libraries to fulfill their "vital function in society"[1] by enabling the unrestricted lending of books.[2]

Why libraries can't freely lend e-books, part 1: They're licensed, not sold

While physical books are generally sold or donated to libraries, most electronic books and journals are *licensed,* meaning that first sale might not apply. These licenses restrict libraries' uses of e-books. If a library has a physical book, it can loan it out as many times as it is requested. It can send the book to another institution via interlibrary loan. Licenses often limit these activities. Digital Rights Management (DRM) adds a layer of technological controls that further restrain libraries' freedoms.

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What's the difference between a sale and license? Normally, the law is skeptical of limitations on transfers of property. Can Snickers say you merely "licensed" that candy bar because there was fine print on the label? A court would be unlikely to agree. Can libraries argue that though e-books come with "a license," the library is nevertheless an "owner" with first sale rights? The answer at the moment is "probably not."

While the law in this area is unsettled, recent cases favor publishers. An influential case[2] held that a user of copyrighted software "is a licensee rather than an owner of a copy where the copyright owner:

1) specifies that the user is granted a license [as opposed to a sale];

2) significantly restricts the user's ability to transfer the software; and

3) imposes notable use restrictions."

Ironically, the more restrictions, the more likely the law will see a license, not a sale. This *can* be a good thing: licenses facilitate customized pricing, and restrictive terms can counter the potential market harm from digital copies. On the other hand, especially with libraries, licenses restrict important, beneficial activities—including those enabled by first sale.

Why libraries can't freely lend e-books, part 2: There's no "digital first sale" doctrine

In 2013 the Supreme Court noted that "for at least a century the 'first sale' doctrine has played an important role in American copyright law."[3] But does this role extend to the digital environment? Even if libraries were owners rather than licensees, could they lend e-books without permission? Thus far, the answer appears to be no. In a 2001 report,[4] the Copyright Office recommended against "digital first sale," and since then neither courts nor Congress have been inclined to recognize such a freedom.

The first hurdle to digital first sale comes from the copyright statute. First sale predated digital technology, and it does not readily transpose to the digital world. The Copyright Act grants copyright owners the exclusive rights to reproduce, distribute, publicly perform, publicly display, and adapt their works. The first sale provision only refers to the *distribution* right; the other rights are unaffected. You can resell your copy of Harry Potter, but you cannot sell photocopies or make a movie version. Limiting first sale protection to distribution made sense in the analog world because other rights were not implicated. To give you a book, I did not have to make a copy of it. But digital distribution is different: it generally entails one or more *reproductions.* Because these reproductions are not covered by the statutory language, digital transmissions may fall outside the ambit of first sale protection.

What if we developed a technology that deleted my copy of an e-book at the moment it transferred a copy, so that at the end of the day, there was still only one copy? The Copyright Office was unconvinced that this would make digital transfers "essentially identical" to physical transfers. In its opinion, first sale was limited to "physical artifact[s]" because "[p]hysical copies degrade with time and use; digital information does not… Digital transmissions can adversely effect the market for the original to a much greater degree than transfers of physical copies."

Because digital copies are perfect and can be easily replicated, some argue that they are more likely to cause market harm and should be more tightly controlled than physical copies. The increased potential for market substitution is a valid concern. However, the relative tendency of physical and digital copies to "degrade with time and use" cannot itself justify the rejection of digital first sale. If we invented perfect paper that never yellowed or decayed, books printed on that paper would nevertheless be subject to first sale. In addition, both physical and digital media are subject to *temporal* degradation. A digital copy remains flawless, but its market value nevertheless diminishes over time.

In the 2013 case *Capitol Records v. ReDigi,*[5] a court assessed a sophisticated digital first

sale system. ReDigi wanted to be "the world's first . . . online marketplace for digital used music." It had developed technology that made digital resales similar to physical ones. Users wishing to sell music would upload their digital files to ReDigi's cloud locker, and the technology would "migrate" the files, "packet by packet . . . so that data does not exist in two places at any one time." ReDigi's "Media Manager" ensured that only lawfully acquired copies were eligible for sale, and that any residual copies on the user's computer were deleted after uploading. When the music was sold, access to the file in the cloud was transferred from seller to purchaser.

ReDigi argued that its service was protected by the first sale doctrine, but the court strongly disagreed. It found that first sale should be "limited to material items" and quoted the Copyright Office's reasoning that "[p]hysical copies of works degrade with time and use. . . . Digital information does not degrade, . . . The 'used' copy is just as desirable as . . . a new copy." The court's legal analysis focused on the reproductions made during online resale.

At oral argument, the judge used an analogy to *Star Trek,* and asked whether ReDigi was more like the "transporter" that sends Captain Kirk to a planet without duplicating him, or "the cloning where there's a good and a bad Captain Kirk where they're both running around." Even though ReDigi may seem closer to the transporter, the court declined to be beamed up. It held that whenever a file was uploaded by a seller or downloaded by a buyer, there was an infringing reproduction.

This was not the only possible outcome. Rather than focusing on the technicalities of reproduction, the court *could* have concluded that ReDigi's service was "essentially identical" to a used record store. That said, the court's reluctance to break new ground by recognizing digital first sale, when neither Congress nor the Copyright Office had done so, is understandable. The threat of market harm if digital copies "run loose" is real. Cheaper "used" copies could compete with more expensive originals. If those were the only two alternatives for consumers, it might be a good reason to forbid digital first sale. Unfortunately, a third alternative is illicitly downloading copies for free. Studies[6] have shown that the effective way to drive down rates of illicit copying is to provide cheap and legal alternatives. Digital first sale could lead would-be downloaders to turn to a legal second-hand market, indirectly increasing the willingness of first-time purchasers to buy.

Time for reform?

In 2013, Maria Pallante, director of the Copyright Office, outlined Congress's options, should it revisit the question of digital first sale:

> On the one hand, Congress may believe that in a digital marketplace, the copyright owner should control all copies of his work, particularly because digital copies are perfect copies (not dog-eared copies of lesser value) or because in online commerce the migration from the sale of copies to the proffering of licenses has negated the issue. On the other hand, Congress may find that the general principle of first sale has ongoing merit in the digital age and can be adequately policed through technology—for example, through measures that would prevent or destroy duplicative copies. Or, more simply, Congress may not want a copyright law where everything is licensed and nothing is owned.[7]

That last phrase, "where everything is licensed and nothing is owned," is worth thinking about. We have grown up assuming that people owned their books and their music. With ownership came rights that allowed us to share, to lend, to resell, all without being monitored. By contrast, imagine having a library of books whose shelves might be bare one morning due to licensing problems. (This is not hyperbole. Amazon "disappeared" books from hundreds of

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readers' Kindles when it determined that the seller did not have the necessary rights. One of the vanishing books was Orwell's *1984.)* Imagine cultural usage entirely dependent on the person writing the license.

In July 2013, the Department of Commerce released a "Green Paper"[8] on copyright that solicited comments on digital first sale. In response, the Library Copyright Alliance expressed concern about the "proliferation of licensing" and advocated "restrictions on the enforcement of contractual terms that attempt to limit exceptions to the Copyright Act such as first sale or fair use."[9] Why? Because copyright's exceptions are as important to its scheme as the exclusive rights themselves. Many librarians are concerned that digital technology has upset the balance between users' and owners' rights. In effect, we are back to 1908, except that now the notice that the publisher inserted in that book would have legal force, and would be accompanied by more restrictions.

What would legal reform look like? A far-reaching option would be the introduction of a digital first sale right that cannot be waived by contract. Short of this, Congress could grant libraries specific rights allowing them to lend, preserve, and archive electronic materials. Courts might continue to allow fair use to shelter beneficial activities. Finally, private initiatives, such as the Digital Public Library of America and related academic projects, could step in to offer their own solutions to preserve libraries' freedoms. These efforts to restore balance are important: publishers' concerns are legitimate, but the cultural freedoms that first sale protects should not depend entirely on a licensor's whims, either in 1908 or today.

Notes

1. U.S. Copyright Office, DMCA Section 104 Report (2001).

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

3. *Kirtsaeng v. John Wiley & Sons, Inc.,*133 S.Ct. 1351 (2013).

4. U.S. Copyright Office, DMCA Section 104 Report (2001).

5. *Capitol Records, LLC v. ReDigi Inc.,* 934 F.Supp.2d 640 (S.D.N.Y. 2013).

6. The Social Science Research Council's recent study summarizes the evidence. See Joe Karaganis and Lennart Renkema, "Copy Culture in the U.S. and Germany" (January 2013).

7. Maria A. Pallante, "The Next Great Copyright Act–Twenty-Sixth Horace S. Manges Lecture" (March 2013).

8. Department of Commerce's Internet Policy Task Force *Green Paper on "Copyright Policy, Creativity, and Innovation in the Digital Economy"* (July 2013).

9. Library Copyright Alliance's Response to the Request for Comments on the Department of Commerce *Green Paper, Copyright Policy, Creativity, and Innovation in the Digital Economy* (November 2013).