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I. INTRODUCTION

In 1908, the Supreme Court articulated the first sale doctrine, holding in *Bobbs-Merrill Co. v. Straus*[2] that a copyright owner's "right to vend" did not include the right "to control all future retail sales." The doctrine was codified in the Copyright Act of 1909[3] and again in §109(a) of the Copyright Act of 1976, which states:

> Notwithstanding the provisions of section 106(3) the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.[4]

§109(a) has generally been interpreted to apply to digital works only to the extent the material object containing a lawfully made copy is physically transferred pursuant to a sale or other disposition.[5] For example, the owners of lawfully made movie DVDs and music CDs are free to sell them on eBay or donate them to a library. In addition, there is nothing in the language of §109(a) that would prohibit the sale of a storage device such as an iPod containing songs that were lawfully purchased (as opposed to licensed) and downloaded.

However, attempts to read §109(a) as permitting fully digital resales, in which copies of works are conveyed from sellers to buyers through electronic file transfers without the authorization of the copyright holder(s), have run into multiple challenges. First, courts have repeatedly held that §109(a) provides a defense to infringement of the distribution right in §106(3) only with respect to a *particular* copy of a work, and not for the new copy created during an electronic file transfer.[6] More fundamentally, §109(a) is directed to an exception to the copyright holder's exclusive distribution right in §106(3) and not to the reproduction right in §106(1). Courts have ruled that the new digital copy of a work created on a transferee's computer in a file transfer implicates the copyright holder's reproduction right.[7]

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[2] *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 351 (1908).

[3] *See* the Copyright Act of 1909, Pub. L. No. 60-349, 35 Stat. 1075 (repealed 1976). *See also* H.R. Rep. No. 2222, 60th Cong., 2d Sess., 19 (1909).

[4] 17 U.S.C. §109(a). In addition, 17 U.S.C. §109(c), which provides a defense to infringement of the display right in 17 U.S.C. §106(5), is also relevant to the first sale doctrine.

[5] *See*, e.g., U.S. Copyright Office, *DMCA: Section 104 Report (A Report of the Register of Copyrights Pursuant to Section 104 of the Digital Millennium Copyright Act)* (2001) ("2001 DMCA Report") 78, *at* http://www.copyright.gov/reports/studies/dmca/dmca_study.html; *Design Options, Inc. v. BellePointe, Inc.*, 940 F. Supp. 86, 91 (S.D.N.Y. 1996)

[6] *See*, e.g., *Arista Records LLC v. Greubel,* 453 F. Supp. 2d 961, 968 (N.D. Tex. 2006).

[7] *See*, e.g., *ReDigi Inc.*, ---F. Supp. 2d ---, 2013 WL 1286134; *A&M Records, Inc. v. Napster, Inc.,* 239 F.3d 1004, (9th Cir. 2001); *Matthew Bender & Co., Inc. v. W. Pub. Co.,* 158 F.3d 693 (2d Cir. 1998).

In short, U.S. copyright law does not currently have a digital first sale[8] doctrine.[9] But what would happen if §109 were expanded to cover digital file transfers? And, if such a modification were made, how would the Supreme Court's March 2013 holding in *Kirtsaeng v. John Wiley & Sons*[10] that "lawfully made under this title" in §109(a) is not geographically limited impact global digital trade in copyrighted works?

As discussed herein, while there are some good arguments in favor of introducing a digital first sale doctrine, there are concerns as well. The combination of readily identifiable problems that could arise with an overly broad expansion of §109 and the near certainty of unintended consequences provide ample reason to proceed cautiously. To properly balance the interests of copyright holders and users, a digital first sale doctrine, if adopted, would need to be much more narrowly crafted than its counterpart in the offline world.

In particular, given the post-*Kirtsaeng* importation landscape, any digital first sale doctrine should—at least initially—permit post-sale electronic transfers only within the United States. It would also need to prohibit very short duration (e.g., a few minutes) anonymous electronic loans as well as dispositions of works in a manner enabling the creation of multiple persistent copies from a single original sale.

II. THE 2001 U.S. COPYRIGHT OFFICE REPORT TO CONGRESS

The issues that would be raised by a digital first sale doctrine first attracted significant attention during the second half of the 1990s as internet-based distribution of copyrighted works became increasingly common. The Digital Millennium Copyright Act of 1998 contained a provision[11] calling for the U.S. Copyright Office to submit a report to Congress on "the relationship between existing and emergent technology and the operation of sections 109 and 117 of title 17, United States Code." The resulting report (hereafter, the "2001 DMCA Report),[12] which was delivered in August 2001, devoted nearly 30 pages of discussion to "the first sale doctrine in the digital world," and recommended making "no change to section 109 at this time."[13]

The 2001 DMCA Report noted that the "need to transport physical copies of works, which acts as a natural brake on the effect of resales on the copyright owner's market, no longer

[8] As used herein, the phrases "digital first sale doctrine" and "digital first sale" refer to a hypothetically expanded 17 U.S.C. §109(a) that would allow for resales absent any physical transfer of an accompanying storage medium.

[9] Notwithstanding extensive jurisprudence to the contrary, various legal theories have been advanced to support an interpretation that resales via digital file transfers are permitted under current copyright law. For example, it is sometimes argued that if the seller's copy is deleted at the moment the buyer's copy is created, there has been no reproduction, or that the distribution that accompanies a file transfer can be accomplished in a manner that is equivalent from a copyright law standpoint to the distribution that accompanies the transfer of a tangible medium containing a copyrighted work to a new owner. However, these theories have not gained a sympathetic reception in the courts.

[10] *Kirtsaeng v. John Wiley & Sons, Inc.,* ---S.Ct. ---, 2013 WL 1104736 (Mar. 19., 2013).

[11] Digital Millennium Copyright Act of 1998, Pub. L. No. 105-304, 112 Stat. 2860, 2876, *available at* http://www.gpo.gov/fdsys/pkg/PLAW-105publ304/pdf/PLAW-105publ304.pdf.

[12] 2001 DMCA Report.

[13] 2001 DMCA Report, Executive Summary Section, p. xx.

exists in the realm of digital transmissions,"[14] and that the ability of "used" digital "copies to compete for market share with new copies is thus far greater in the digital world."[15] "Removing . . . the legal limitations on retransmission of works," it continued, "coupled with the lack of inherent technological limitations on rapid duplication and dissemination, will make it too easy for unauthorized copies to be made and distributed, seriously harming the market for those works."[16]

Much of the 2001 DMCA Report's opposition to a digital first-sale doctrine arose from the legitimate concern that people might resell copies of digital works while also retaining them. In 2001, the technology to ensure removal of the seller's copy of a work at the time of file transfer was not considered by the Copyright Office to be viable:

> Relying on a "forward-and-delete" technology is not workable either. At present such technology does not appear to be available. Even assuming that it is developed in the future, the technology would have to be robust, persistent, and fairly easy to use. As such, it would likely be expensive—an expense that would have to be borne by the copyright owner or passed on to the consumer.[17]

"In the final analysis," the Copyright Office concluded, "the concerns about expanding first sale . . . outweigh the pro-competitive gains that might be realized from the creation of a digital first sale doctrine."[18]

The 2001 DMCA Report remains the most extensive analysis to date presented by the Copyright Office. The current Register of Copyrights, Maria Pallante, briefly addressed digital first sale in an article titled *The Next Great Copyright Act* released in association with a March 2013 lecture at Columbia University.[19] However, other than citing the 2001 DMCA Report and noting that "[m]ore than a decade later, the doctrine of first sale may be difficult to rationalize in the digital context,"[20] she did not articulate any new Copyright Office positions on this issue.[21]

III. THE TECHNOLOGY LANDSCAPE TODAY

To put it mildly, the technology landscape for managing and accessing digital content has changed dramatically since 2001. Continued improvements in communications systems have led to an enormous growth in cloud-based solutions for storing digital media files. A consumer today can choose to stream music from a large library of lawfully purchased songs stored

[14] 2001 DMCA Report, at 82-83.

[15] *Id.* (internal citation omitted).

[16] *Id.* at 84 (internal citation omitted).

[17] *Id.* at 98.

[18] *Id.* at 100.

[19] Maria A. Pallante, *The Next Great Copyright Act*, The Twenty-Sixth Annual Horace S. Manges Lecture at Columbia Law School (Mar. 4, 2013), *available at* http://www.copyright.gov/docs/next_great_copyright_act.pdf. *See* 37 COLUM. J. L. & ARTS (forthcoming Spring 2013).

[20] *Id.* at 18.

[21] Ms. Pallante also briefly mentioned digital first sale in March 20, 2013 congressional testimony, but did not recommend any specific legislative steps to address it. U.S. Copyright Office, *The Register's Call for Updates to U.S. Copyright Law* (Mar. 20, 2013), *available at* http://judiciary.house.gov/hearings/113th/03202013/Pallante%20032013.pdf.

remotely in the cloud, offering a very viable and increasingly common alternative to the permanent local storage approaches that were dominant a decade ago.

In addition, methods to ensure that a seller loses access to a file after its transfer to a buyer are now receiving significant commercial attention. In January 2013, Amazon was issued a patent describing "an electronic marketplace facilitating a secondary market for digital objects"[22] that discloses a system that uses deletion to avoid duplicating "digital objects" as part of a transfer. An Apple patent application published in March 2013 describes techniques allowing "access to a digital content item (such as an ebook, music, movie, software application) to be transferred from one user to another. The transferor is prevented from accessing the digital content item after the transfer occurs."[23]

ReDigi, a startup company that launched an online digital marketplace in October 2011 enabling users to resell lawfully acquired digital music files, has also developed file deletion technologies. In addition to hosting a website to facilitate the resales, ReDigi provided a downloadable "Media Manager" designed to ensure that users did not retain copies of songs they had sold. After Capitol Records filed a copyright infringement complaint[24] against ReDigi in the Southern District of New York, Judge Richard J. Sullivan ruled that the creation of copy of a work through ReDigi's service "infringes Capitol's exclusive right of reproduction" as well as its "exclusive right of distribution."[25]

Notably, the ruling did not cite any failure of ReDigi's solutions to ensure that a seller's copy is not retained upon a sale as the basis for infringement. Instead, ReDigi was found to infringe for the simple reason that creation of a copy of a file on a buyer's computer (or cloud-based locker) falls outside the scope of §109(a). As Judge Sullivan wrote in the conclusion to his decision, "[t]he Court cannot of its own accord condone the wholesale application of the first sale defense to the digital sphere, particularly when Congress itself has declined to take that step."

As the *ReDigi* decision makes clear, introducing a potentially effective method to ensure proper deletion of (or removal of access to) a file upon its transfer is not sufficient to bring the resulting system into compliance with current copyright law. However, the perceived unfeasibility of such technologies back in 2001 was cited by the Copyright Office as a principal reason not to expand §109(a) to encompass digital resales. That argument is less applicable today. As Amazon, Apple, and ReDigi have shown, the "automatic deletion by technological means" that the Copyright Office characterized as "unworkable"[26] in 2001 appears much more

[22] E. Ringewald, *Secondary Market for Digital Objects*, U.S. Patent No. 8,364,595, Col. 2, ll. 9-10 (issued Jan. 29, 2013) *available at* http://www.google.com/patents/US8364595.

[23] E. Block, et al., *Managing Access to Digital Content Items*, U.S. Patent Application No. 13/531,280, Publication No. 20130060616, Abstract (published Mar, 7, 2013), *available at* http://www.google.com/patents/US20130060616. .

[24] *See Capitol Records, LLC v. ReDigi Inc.,* No. 12 Civ. 95(RJS) (S.D.N.Y. Jan. 6, 2012) (Complaint), *available at* http://ia700800.us.archive.org/30/items/gov.uscourts.nysd.390216/gov.uscourts.nysd.390216.1.0.pdf.

[25] *ReDigi Inc.*, ---F. Supp. 2d ---, 2013 WL 1286134, at *6-7.

[26] 2001 DMCA Report, at 97.

feasible in 2013.[27] And, despite the expectation to the contrary expressed by the Copyright Office in 2001, there is no indication that these solutions will be prohibitively expensive.

IV. MARKET BENEFITS OF DIGITAL RESALES

The pro-competitive advantages of avoiding restrictions on alienation have long been recognized. The *Kirtsaeng* Court cited Lord Coke's early 1600's observations of the harms to "Trade and Traffi[c], and bargaining and contracting" that could accompany transfers of ownership interests encumbered by alienation constraints.[28] In American jurisprudence the first sale doctrine and antitrust policy have been closely intertwined since the early twentieth century.[29] As Hovenkamp succinctly puts it, "if the first sale doctrine does not find its purpose in either competition policy or innovation policy, then it is difficult to find any value for it other than precedent."[30]

Assuming that digital resales could be conducted in a manner ensuring that a single digital sale by a retailer doesn't turn into multiple digital copies in the secondary market, would a digital first sale doctrine be beneficial to the market? Arguments against expanding §109 almost always invoke the historical tie between the first sale doctrine and the circulation of tangible copies of a work. This tie is undeniable, but it is not necessarily inherent to the pro-competitive goals of the doctrine.

To conclude that the first sale doctrine's foundations in common law opposition to restraints on alienation of material property must limit the scope of the doctrine in the future is to confuse cause with consequence. Until relatively recently, conveying a copy of a work pursuant to a sale or other disposition generally required conveying the material object in which it was embodied. Today, that is no longer the case. The traditional view is a reflection of distribution mechanisms that were—but no longer are—technologically limited to tangible copies. Viewed more broadly, the first sale doctrine and its common law antecedents have been beneficial because restrictions on downstream transactions can impede markets. Technology-driven changes in markets do not render the economic principles underlying the doctrine obsolete.

In 1996, then-Register of Copyrights Marybeth Peters wrote, "[t]he first sale doctrine was developed to avoid restraints on the alienation of physical property, and to prevent publishers

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[27] Of course, no method designed to prevent a seller or other transferor of a file from retaining improper access to the file will be perfect. However, neither are the widely used digital rights management and other copy protection approaches that aim to prevent other unauthorized uses of digital content. To be commercially viable, these technologies need to be good enough so that they can be deployed and generally used effectively despite their imperfections; they do not need to be perfect.

[28] *Kirtsaeng,* ---S.Ct. ---, 2013 WL 1104736, at *14

[29] *See*, e.g., Hovenkamp, noting, "The effective merger of the first sale rule and antitrust policy occurred in two decisions issued on the same day in April 1917." (referring to *Straus v. Victor Talking Mach. Co.*, 243 U.S. 490 (1917); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917). Herbert J. Hovenkamp, *Post-Sale Restraints and Competitive Harm: The First Sale Doctrine in Perspective*, 66 N.Y.U. ANN. SURV. AM. L. 487, 508 (2011), *available at* .http://www.law.nyu.edu/ecm_dlv2/groups/public/@nyu_law_website__journals__annual_survey_of_american_law/documents/documents/ecm_pro_068798.pdf.

[30] *Id.*, at 504.

from controlling not only initial sales of books, but the after-market for resales. These concerns do not apply to transmissions of works on the [internet]."[31] A reasonable rebuttal to this statement is, why not? If control by publishers and other copyright holders of resales is undesirable, why is it less so when the content is delivered digitally? Or, going further, if healthy aftermarkets are pro-competitive, why should copyright holders have the right to eliminate them altogether in the digital world?[32]

V. AVOIDING THE SHORT DURATION LOAN PROBLEM

Given the technology advances over the last decade, and the well-recognized competitive advantages of a strong downstream market, it is tempting to conclude that the time has arrived to adopt a digital first sale doctrine. However, that would be premature without fully considering and addressing the loopholes that might get created, some of which have no direct analogs in the offline world. In particular, a fair treatment of the digital first sale question requires acknowledging the existence of some problematic post-sale transactions that might arise under an overly broad digital first sale doctrine. In some scenarios, these transactions could potentially decimate the market opportunities for creators and providers of digital content.

One of the most vexing challenges relates to very short-duration loans of digital works,[33] potentially facilitated by a hypothetical website that would match listeners and owners whose copies of requested songs were sitting unused on hard drives dispersed throughout the country (or, post-*Kirtsaeng*, the world). Consider a group of one million music fans, each of whom wishes to listen to a certain 3-minute song exactly once a week at a randomly chosen day and time. How many copies of the work would need to be available in the pool of lenders to ensure that multiple simultaneous requests could be satisfied? In the strictest mathematical sense, to account for the infinitesimal chance that all million people might choose to listen to the song at the same time, one million copies would be needed. But the statistical odds of that occurring are so low as to be effectively zero. In practice, the overwhelming majority of loan requests could be handled with access to an inventory of only a few hundred copies of the song.

If this approach were carried to its maximally efficient extreme, a recording artist could only sell a number of copies of a song equal to the maximum number of people listening to it at any one time. This could dramatically reduce the market for digital[34] music sales. To avoid this issue, a digital first sale doctrine would need to be structured to ensure that very short-term (e.g., a few minutes), anonymous digital loans are not within the scope of permitted dispositions of copies of works.

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[31] Marybeth Peters, The National Information Infrastructure: A Copyright Office Perspective, 20 COLUM. V.L.A. J. L & ARTS 341, 355-356 (1996), as quoted in 2001 DMCA Report, at 88 n.290.

[32] The arguments in favor of a digital first sale doctrine are not limited to the resulting potential market benefits. Libraries, for example, have frequently voiced concerns about the challenges in lending electronic books that are encountered under current copyright law. *See*, e.g., John Palfrey, *Why We Miss the First Sale Doctrine in Digital Libraries*, THE DIGITAL SHIFT, Mar. 8, 2013, http://www.thedigitalshift.com/2013/03/copyright/why-we-miss-the-first-sale-doctrine-in-digital-libraries/.

[33] The 2001 DMCA Report discussed this general scenario, though without any numerical examples. *See* 2001 DMCA Report, at 83.

[34] "digital" here refers to digitally delivered, and not to digital music sold in tangible form such as a CD.

It is also worth noting that there are services such as Spotify that provide on-demand music access today without raising these sorts of concerns. From the standpoint of a music fan, the listening experience at Spotify can be essentially the same as that envisioned in the hypothetical scenario provided above. But from the copyright holder's standpoint, providing music through Spotify is dramatically better, since it allows compensation to be provided to holders of music copyrights in accordance with performance royalty rates that can be negotiated with specific consideration of audience levels.

VI. LICENSING: THE END OF DIGITAL SALES?

The protections afforded by the first sale doctrine are available to owners of a lawfully made copy of a work, but not to licensees.[35] This distinction is particularly important given the rapid growth in license-based models for digital content distribution, and can involve complex questions related to the tensions between copyright and contract law.[36]

In *Vernor v. Autodesk, Inc.*[37] the Ninth Circuit considered the status of software offered "to customers pursuant to an accompanying software license agreement ('SLA'), which customers must accept before installing the software."[38] Vernor contended that the "economic realities" of the transaction turned it into a sale.[39] In a 2010 decision, the court held "that a software user is a licensee rather than an owner of a copy where the copyright owner: (1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions."[40]

The license vs. sale distinction does not always turn on a seller's (or licensor's) characterization of the nature of a transaction.[41] Several months after *Vernor*, the Ninth Circuit issued a decision in *UMG Recordings, Inc. v. Augusto,*[42] which involved promotional CDs shipped bearing a statement "[a]cceptance of this CD shall constitute an agreement to comply with the terms of the license. Resale or transfer of possession is not allowed and may be punishable under

[35] *See* 17 U.S.C. §109(d): "The privileges prescribed by subsections (a) and (c) do not, unless authorized by the copyright owner, extend to any person who has acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan, or otherwise, without acquiring ownership of it." In addition, in 1998 the Supreme Court explicitly noted that 17 U.S.C. §109(a) does not apply to licensees: "[B]ecause the protection afforded by §109(a) is available only to the 'owner' of a lawfully made copy (or someone authorized by the owner), the first sale doctrine would not provide a defense to a §602(a) action against any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful." *Quality King Distributors, Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 146–47 (1998).

[36] *See*, e.g., Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing,* 87 CAL. L. REV. 111 (1999); Daniel E. Wanat, *Copyright Law, Contract Law, and Preemption Under § 301(a) of the Copyright Act of 1976: A Study in Judicial Labeling or Mislabeling and a Proposed Alternative,* 31 VT. L. REV. 707 (2007).

[37] Vernor v. Autodesk, Inc., 621 F.3d 1102 (9th Cir. 2010), cert. denied, 132 S.Ct. 105. (2011).

[38] *Id*. at 1104.

[39] *Id*. at 1114.

[40] *Id*. at 1111.

[41] *See*, e.g., *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175 (9th Cir. 2011), in which the Ninth Circuit found no "indication that the recipients agreed to a license" and held that "UMG's distribution of the promotional CDs under the circumstances effected a sale (transfer of title) of the CDs to the recipients. Further sale of those copies was therefore permissible without UMG's authorization." *Id.* at 1182-1183.

[42] *Id.* at 1175.

federal and state laws."[43] Since there was no "indication that the recipients agreed to a license," the court found "no evidence to support a conclusion that licenses were established under the terms of the promotional statement."[44] Thus, the court concluded, "UMG's distribution of the promotional CDs under the circumstances effected a sale (transfer of title) of the CDs to the recipients. Further sale of those copies was therefore permissible without UMG's authorization."[45]

Electronically delivered books, music, and movies are often provided through licenses with terms analogous to the three conditions identified by the court in *Vernor*.[46] In addition, consumers are typically required to agree to the terms of those licenses prior to receiving the works, avoiding the problem that led the court to find against UMG in *UMG Recordings*. While *Vernor* and *UMG Recordings* are binding only in the Ninth Circuit, the underlying logic they suggest will likely be applied in other circuits as well: A consumer who agrees to the terms of a properly constructed license that does not transfer title to a copy of a work cannot reasonably later recast the transaction as a "first sale." That said, digital content providers have an ethical—and perhaps legal—obligation to provide more clarity to consumers regarding the conditions attached to digitally delivered content.

Through licenses, copyright holders can exert exactly the types of downstream control over copyrighted works that the first sale doctrine aims to avoid. Licensors of copyrighted works such as music "purchased" and downloaded over the internet can (and as things currently stand, usually do) choose to prohibit resales altogether. In addition, since resales involving electronic transfers of digital works can only be lawfully conducted under current copyright law if the relevant copyright holders provide consent, that consent is more likely to be accompanied by restrictions that do an end run around traditional exhaustion frameworks. Apple's recently published patent application is illustrative in this respect, because it describes mechanisms enabling copyright holders to share in the proceeds from digital resales.

Despite the significant policy concerns raised by the above scenarios, it would not generally be appropriate to attempt to legislatively reclassify certain classes of licenses as sales conveying title to a copy of a work. The restrictions imposed on consenting digital content licensees regarding resales and other transfers are typically well within the bounds of reasonableness in the context of contract law. And they pose no conflict with a copyright law that has long provided owners of lawfully made copies of works with privileges that are not extended to licensees.

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[43] *Id*. at 1182.

[44] *Id*.

[45] *Id*. at 1183.

[46] These licenses can nonetheless be challenged as being sales. In *Capitol Records v. ReDigi*, ReDigi argued that the iTunes terms of sale, in contrast with the terms of use for Amazon's online music store, provide for a transfer of title that allows iTunes customers to resell their songs. *Capitol Records, LLC v. ReDigi Inc.,* No. 12 Civ. 95(RJS) (S.D.N.Y. Jan. 27, 2012) (ReDigi Opp'n to Prelim. Inj.), *available at* http://beckermanlegal.com/Lawyer_Copyright_Internet_Law/capitol_redigi_120127MemorandumOfLawOpposingPreliminaryInjunction.pdf. The court's March 30, 2013 ruling (*Capitol Records, LLC v. ReDigi Inc.*, ---F. Supp. 2d ---, 2013 WL 1286134 (S.D.N.Y. Mar. 30, 2013)), however, found infringement without needing to address the merits of ReDigi's interpretation of the ITunes terms of sale.

The best way to reduce the prevalence of licenses that leave too little control in the hands of consumers is through market competition. If consumers display a reluctance to accept license terms they consider overly restrictive, market pressure should lead content providers to provide license terms allowing consumers to at least partially replicate the uses available to owners of tangible copies of works.

VII. ADDING KIRSTAENG TO THE MIX

Kirtsaeng v. John Wiley & Sons. Inc. considered the relationship between the first sale doctrine in §109(a) and §602(a), which generally[47] prohibits the importation into the United States, "without the authority of the owner of copyright," of copies of a work "acquired outside the United States." The tension between these two provisions was tested by Supap Kirtsaeng, who built an arbitrage business around importing textbooks that had been lawfully made and purchased in Asia and then reselling them at a profit in the United States. Publisher John Wiley & Sons filed suit in 2008, and a federal district court found that Kirtsaeng's actions infringed Wiley's copyrights. After the Second Circuit affirmed, the Supreme Court granted *certiorari*.

The key phrase in dispute was "lawfully made under this title" in §109(a). Wiley argued in favor of a geographical limitation, while Kirtsaeng argued that the phrase referred to items made " 'in accordance with' or 'in compliance with' the Copyright Act," without regard to geography.[48] In a March 2013 decision, the Court sided with Kirtsaeng, concluding "the considerations supporting Kirtsaeng's nongeographical interpretation of the words 'lawfully made under this title' are the more persuasive."[49] The first sale doctrine, held the Court, "applies to copies of a copyrighted work lawfully made abroad."[50]

Kirtsaeng will clearly make it more difficult to implement geographically based price differentiation—a consequence that the Court did not find problematic: "[T]he Constitution's language nowhere suggests that its limited exclusive right should include a right to divide markets or a concomitant right to charge different purchasers different prices for the same book, say to increase or to maximize gain."[51]

With respect to digitally delivered works, *Kirtsaeng* will give copyright holders a further incentive to accelerate the shift from physical distribution, where their power to divide markets has now been weakened, to digital distribution, where that power remains unaltered. But what would happen in light of *Kirtsaeng* if a digital first sale doctrine were adopted? One tempting answer, given the increasing dominance of licensing-based distribution models, is: not much. After all, when there is no "first sale," the first sale doctrine, despite the expanded defense to infringement it provides under *Kirtsaeng*, does not apply.

However, *Kirtsaeng* elevates the importance of jurisdictional variations in the treatment of licensed works, creating new potential ambiguities regarding the license/sale distinction. In July 2012, the Court of Justice of the European Union ruled in *UsedSoft GmbH v. Oracle*

[47] Subject to some exceptions provided in 17 U.S.C. §602(a)(3)
[48] *Kirtsaeng,* ---S.Ct. ---, 2013 WL 1104736, at *8.
[49] *Id*. at *23.
[50] *Id*. at *5.
[51] *Id*. at *22.

International Corp. that a software licensee holding a perpetual license could resell the license, despite terms in the license prohibiting a transfer. Because the initial "transaction involve[d] a transfer of the right of ownership of the copy,"[52] the court ruled that the copyright holder's exclusive distribution right under article 4.2 of Directive 2009/24/EC was exhausted.[53] When reselling the license, to avoid infringing the copyright holder's exclusive reproduction right, the reseller was required to "make the copy downloaded onto his own computer unusable at the time of resale."[54]

Although the facts are not completely analogous, the European *UsedSoft* decision provides an interesting counterpoint to the Ninth Circuit's *Vernor* decision. If licensees in Europe are more likely than those in the United States to be deemed owners, in light of *Kirtsaeng* are these licensees now owners of works "lawfully made" under Title 17? And under a hypothetical American digital first sale doctrine, would attempts to maintain a license/sale distinction in the United States be undermined by an inflow from overseas of licensed works on the secondary market?

Putting aside the license/sale distinction for the moment, it is also interesting to consider some of the issues that have arisen in relation to geographical price variations for digital content. In 2007, Apple came under scrutiny for offering iTunes songs at a higher cost in the United Kingdom when compared with elsewhere in Europe.[55] Apple in turn blamed the differences on record labels that required Apple to pay "more to distribute their music in the UK than it pays them to distribute the same music elsewhere in Europe."[56]

Following the launch of a European Commission antitrust probe,[57] Apple announced[58] that it was equalizing iTunes download prices across Europe.[59] However, over the six months after the announcement, the euro strengthened relative to the British pound, leading Apple to conclude that the U.K. price cut was "no longer necessary as exchange rates have effectively done it for us."[60]

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[52] Press Release, EUROPA, Judgment in Case C-128/11 UsedSoft GmbH v. Oracle International Corp. - An author of software cannot oppose the resale of his 'used' licences allowing the use of his programs downloaded from the internet, July 3, 2012, 2008, http://curia.europa.eu/jcms/upload/docs/application/pdf/2012-07/cp120094en.pdf.

[53] *See* Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs, 2009 O.J. (L111), p. 16, *available at* http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:111:0016:0022:EN:PDF.

[54] *Supra*, note 60.

[55] *EU price probe into Apple iTunes*, BBC NEWS, Apr. 3, 2007, http://news.bbc.co.uk/2/hi/business/6520677.stm.

[56] Press Release, Apple Inc., Apple to Standardize iTunes Music Press Throughout Europe, Jan. 8, 2008, http://www.apple.com/pr/library/2008/01/09Apple-to-Standardize-iTunes-Music-Prices-Throughout-Europe.html.

[57] Gregg Keizer, *Apple drops iTunes prices, EU drops antitrust action*, COMPUTERWORLD, Jan. 9, 2008, http://www.computerworld.com/s/article/9056458/Apple_drops_iTunes_prices_EU_drops_antitrust_action.

[58] *Supra,* note 52.

[59] Press Release, EUROPA, Antitrust: European Commission welcomes Apple's announcement to equalize prices for music downloads from iTunes in Europe, Jan. 9, 2008, http://europa.eu/rapid/press-release_IP-08-22_en.htm?locale=en.

[60] Ian Youngs, *UK iTunes shelves music price cut*, BBC NEWS, July 15, 2008, http://news.bbc.co.uk/2/hi/entertainment/7507100.stm.

Outside of a single market such as Europe, price differences can be even more pronounced. An informal comparison performed in early 2011 examined global prices for a set of songs and apps available at iTunes, and found significant price differentials across different countries.[61] For example, "a basket of digital goods, including a new release album, three hit singles, four iPhone apps and Pages for the iPad," was found to cost 46 percent more in Australia than in the United States; digital works in Mexico's iTunes store, by contrast, were less expensive than in the United States.[62]

These examples illustrate some of the complexities that would come into play under a digital first sale doctrine allowing digital works "lawfully made" elsewhere in the world to be electronically resold in the United States. Any digital works sold at lower prices abroad than in the United States would create arbitrage opportunities that would immediately be identified and exploited. Requiring deletion of the file available to a non-U.S. seller would also pose extraterritoriality challenges.[63] In addition, jurisdictional differences in copyright laws could put pressure on copyright holders to charge different prices in different countries. To the extent that the desire on the part of content providers to avoid consumer arbitrage then made such differential pricing impossible, the result could be globally uniform but higher prices.

The above concerns provide ample reason to ensure that an American digital first sale doctrine, if adopted, should at least initially be structured to apply only to copies of works purchased and transferred within the United States. To do otherwise would be to go even further down the path towards endorsing an international exhaustion policy than the *Kirtsaeng* Court has already gone. International exhaustion is a complex issue on which WTO member countries have essentially agreed to disagree,[64] and with respect to which the American position is ambiguous in light of *Kirtsaeng*. There are reasonable policy arguments both for and against international exhaustion, but those arguments involve considerations that go well beyond trade involving digitally transferred works, and should be addressed in their proper larger context.

VIII. CONCLUSION

The 2001 Copyright Office report asserted "the underlying purpose of the first sale doctrine is to ensure the free circulation of tangible copies." Certainly, this was true in 1909 and 1976. But in the 21st century, a reasonable interpretation is that the underlying purpose of the first sale doctrine is to ensure the free circulation of lawfully made *copyrighted works,* even when those works happen to be embodied in electronic form.

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[61] Asher Moses, *Apple using 'market power' to gouge Aussie iTunes users*, THE SYDNEY MORNING HERALD, Feb. 21, 2011, http://www.smh.com.au/digital-life/digital-life-news/apple-using-market-power-to-gouge-aussie-itunes-users-20110221-1b1nq.html.

[62] *Id.*

[63] Although as Justice Ginsburg noted in dissent, the *Kirtsaeng* majority's holding removing geographical limitations from "lawfully made under this title" raises extraterritoriality challenges as well. *Kirtsaeng*, ---S.Ct. ---, 2013 WL 1104736, at *6.

[64] Vincent Chiappetta, *The Desirability of Agreeing to Disagree: The WTO, TRIPS, International IPR Exhaustion and a Few Other Things*, 21 MICH. J. INT'L L. 333 (2000). *See* also Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, General Provisions and Basic Principles Article 6, 33 I. L. M. 1125, 1200 (1994), providing "nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights."

Furthermore, while the Copyright Office's concern with a digital first sale doctrine was based in part on the fact that "[p]hysical copies degrade with time and use; digital information does not," that characterization has an unstated corollary that is just as important: The systems on which digital works reside today are far less permanent than information they store. As Long has written, "To leave the first sale doctrine unamended as it exists today would be to chain art and the consumers who purchase it to hardware which is constantly becoming obsolete."[65]

It seems reasonable, therefore, to contemplate some expansion of §109 to allow consumers to do with electronic copies of works what they have long been able to do with tangible copies. However, an immediate wholesale expansion of §109 to eliminate any distinction between electronically and physically transferred works with respect to distribution, and to add a blanket defense against infringement of a copyright holder's exclusive right of reproduction, would be a mistake. There are some extremely problematic consequences—some readily identifiable; others less so—that would arise under an overly broad digital first sale statute. A digital first sale doctrine striking an appropriate balance between the rights of copyright holders and copyright users would therefore need to be narrowly crafted and subject to extremely thorough study before adoption.

[65] Henry Sprott Long III, *Reconsidering the "Balance" of the "Digital First Sale" Debate: Re-Examining the Case for a Statutory Digital First Sale Doctrine to Facilitate Second-Hand Digital Media Markets*, 59 ALA. L. REV. 1183, 1200 (2008).