

Before the
United States Patent and Trademark Office **National Telecommunications and Information Administration**
Internet Policy Task Force

Re: Department of Commerce Green Paper on
Copyright Policy, Creativity, and
Innovation in the Digital Economy

COMMENTS OF PUBLIC KNOWLEDGE

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TABLE OF CONTENTS

Introduction	1
I. The Legal Landscape of Remixing	1
A. Fair Use Is A Necessary, And Necessarily Flexible, Doctrine	3
B. An Infringement Can Only Be An Infringement of a Specific 106 Right	4
C. Traditional Copyright Doctrines Apply to Sound Recordings	5
1. Under the “substantial similarity” test, a use may not qualify as a “reproduction”	8
2. Only samples that, by themselves, pass the originality threshold can be a basis for a claim of infringement	9
3. The de minimis doctrine should play a larger part in music sampling discussions	10
II. First Sale in the Digital Environment	12
A. Inherent Benefits to Property Ownership Preserved by First Sale	13
1. Increasing access	13
2. Preservation	14
3. Transaction costs	15
4. Privacy	15
B. First Sale Encompasses More than Distribution Rights	16
C. Digital Uses and Copy Ownership	20
1. Reversing Bobbs-Merrill through licensing terms	22
2. User distribution of downloaded works	26
III. Statutory Damages	30
A. General Rationales for Statutory Damages	31
B. Rationales for Section 504(c)’s Per-Work Calculation and Broad Range	32
1. Per-work calculation	32
2. Range of damages	33
IV. The Task Force Should More Thoroughly Consider the Positive Role Compulsory Licenses Might Play	35
Conclusion	37

Introduction

The Internet Task Force’s Green Paper is a valuable contribution to the Internet policy debate, and Public Knowledge (PK) welcomes the opportunity to submit its comments. PK is a public interest organization that seeks to protect the digital rights of consumers while promoting artistic creativity and technological innovation, and it submits these comments to add its insight into four select points the Green Paper raises. PK looks forward to engaging with the Task Force and other stakeholders on these points and the rest of the issues the Green Paper discusses, in the hopes of helping advance the Internet policy debate.

In these comments, PK argues that the legal framework around sampling should take into account normal copyright tests such as “substantial similarity” and that legal decisions which imply that traditional doctrines such as *de minimis* copying do not apply to sound recordings are wrong. PK also argues that “first sale” is not simply a limitation on the distribution right, but a fundamental protection of the rights of copy owners, reconciled with the legitimate interests of copyright owners. It is a broad form of consumer protection that should be fully applied to the digital era. The sections on first sale and sampling are both intended to illustrate how copyright law contains more legal flexibility than is sometimes acknowledged. In two other sections, and more briefly, PK illustrates key flaws in the statutory damages regime, and urges the Task Force to consider ways in which compulsory licenses might assist the development of online music.

I. The Legal Landscape of Remixing

The Task Force asks “whether the creation of remixes is being unacceptably impeded.” It is. There is a high degree of legal uncertainty surrounding the creation of remixes. This is based both on unclear law, and on imperfect understandings of the law as it stands. Without that uncertainty, it is likely that more artists would create remixes—particularly remixes using sound

recordings, where the law is especially unclear. But the number of remixes that artists create is not the only downside of this uncertainty. The authors of remixes, like other authors, ought to be able benefit from their works, including commercially. The legal uncertainty around remixing means that, currently, many remixers simply operate in a legal grey area, where they create works like other artists but lack the legal clarity they need to fully benefit from them. One goal of the Task Force's work should be to ensure that remixers are not considered second-class creators, and have the same protections and rights as other artists.

The Green Paper mentions a number of specific reforms that could ease the creation of remixes and, where appropriate, assure that the artists whose works are used in remixes by other artists are compensated. However, the suggestions listed appear to assume that the use of copyrighted works in a remix today must either be a noninfringing fair use, or an infringement. The various proposals, such as licensing schemes or new statutory exceptions, proceed from that backdrop. But there are other possibilities in the law.

Most uses of copyrighted works are non-infringing, not because they are authorized or fair uses, but because they simply do not touch on one of the exclusive rights granted to authors under section 106 of the Copyright Act. You do not need a license to read a book or listen to music. In general, private performances of copyrighted works do not infringe, not because they are fair uses, but because authors do not have any rights regarding the private performance of works, only over public performances. Most relevant to remixing, not all uses of a copyrighted work in a new copyrighted work should be enough to trigger an exclusive right, not all samples are copyrightable, and some copying is *de minimis* and thus lawful.

A. Fair Use Is A Necessary, And Necessarily Flexible, Doctrine

Copyright law in the United States recognizes that not all uses of copyrighted works require the permission of the copyright owner, even when the use would otherwise fall within the scope of the owner's exclusive rights. Because of the fair use doctrine, users of copyrighted works can make verbatim copies, extensively quote, and otherwise use copyrighted materials in ways that, but for the doctrine, would be infringing. Though the source of the fair use doctrine is the common law, it is currently codified in 17 U.S.C. § 107, a statute that lists the familiar factors a court must consider in determining whether a use is fair.

Determining whether a particular use is fair is a fact-specific, detailed inquiry. Understandably, it can be intimidating for non-lawyers, and even expert legal counsel cannot determine, with 100% accuracy, whether a challenged use will be found fair by a court. There is therefore an ongoing debate in copyright circles about whether fair use is sufficient to protect the interests of copyright users, or whether it should be supplemented by some kind of list of safe harbors.¹ There is, however, a concern that any list of safe harbors would become—*de facto* or *de jure*—not a floor but a ceiling, with any uses in excess of the safe harbor presumptively infringing.

One purpose of these comments is to call attention to the fact that fair use is not the only generally-applicable limitation or exception to copyright law. While they are not a precisely delineated as some proposed safe harbors, doctrines such as *de minimis* copying can eliminate many claims of alleged infringement more quickly and straightforwardly than the fair use test.

¹ See, e.g., Kevin A. Goldman and Gideon Parchomovsky, *Fair Use Harbors*, 93 VA. L. REV. 1483 (2007).

The fair use test continues to be one of the most vital user protections in copyright law, but it should not be, and is not, the only such protection.

B. An Infringement Can Only Be An Infringement of a Specific 106 Right

Before determining whether or not a specific use of an existing work is infringing, it is best to clarify what, if any, of the exclusive rights of the original copyright holder are infringed. Unfortunately, not all courts do this. In *Grand Upright Music Limited v. Warner Brothers Records*,² the court spends much time moralizing about “stealing” but none discussing how it is that Biz Markie’s quotation of a brief segment of a work by Gilbert O’Sullivan constitutes a reproduction or the preparation of a derivative work or any kind of infringement at all. The approach taken by the court merely assumes that a copyright holder has complete dominion over all downstream “uses” of his work. But this ignores that copyright holders only have the short list of rights given them by section 106 of the Copyright Act, and that these are subject to various limitations and exceptions. Unfortunately, this sloppily-reasoned case has been extremely influential, and has been called “[t]he court case that changed hip-hop — from Public Enemy to Kanye — forever.”³ If the court had taken the time to specify which of Gilbert O’Sullivan’s exclusive rights had been infringed—and thought through the consequences of calling a brief excerpt of a work a “reproduction” or a “derivative work” of the original—it is likely that it would have hesitated to be so sweeping in its pronouncements.⁴

² 780 F. Supp.182 (1991).

³ Chris Richards, *The Court Case That Changed Hip-Hop—From Public Enemy to Kanye—Forever*, Washington Post (July 6, 2012), http://articles.washingtonpost.com/2012-07-06/opinions/35489544_1_tuff-city-beastie-boys-biz-markie.

⁴ Similar legal vagueness has given rise to the notion of “character copyright,” a sweeping concept that has little basis in the text of copyright statutes.

The Green Paper largely discusses “remixes” but indicates in a footnote that its discussion is intended to apply to mashups and sampling.⁵ These are similar, but distinct, cultural practices and there can be legal distinctions that flow from recognizing these. For example, a “remix” is generally thought of as a new version of an existing recording. A remix would thus implicate the derivative work right as well as the reproduction right. A “mashup” is a combination of two or more recordings into a new recording. Whether a mashup constitutes a derivative work is more of a case-by-case analysis (for example, a Girl Talk mashup that is made up from dozens of existing recordings is likely not a derivative work, while the Freelance Hellraiser’s “A Stroke of Genius”—which combines the Strokes’ “Hard to Explain” with Christina Aguilera’s “Genie In a Bottle”—might be.) Finally, a “sample” is the use of a portion of a sound recording in a new work. While a sample may implicate the reproduction right, a song using a sample is rarely a derivative work either of the original song the sample is sourced from or of the sample itself. Recognizing that different kinds of uses implicate different section 106 rights can have consequences. For example, contractual language may reference specific section 106 rights, or different legal tests may apply to different rights. While these comments will largely discuss situations involving sampling a sound recording in a new recording and therefore the reproduction right, some of the reasoning would also apply to other uses that implicate the derivative work right, as well.

C. Traditional Copyright Doctrines Apply to Sound Recordings

While the decision in *Grand Upright* would have benefitted from more thorough legal analysis, legal rigor is no guarantee of a correct outcome. The court in *Bridgeport Music v.*

⁵ Green Paper, fn.141.

*Dimension Films*⁶ came to a wrong conclusion on the legal doctrines surrounding sampling, misreading a statute to conclude that traditional copyright doctrines, such as *de minimis* copying, did not apply to sound recordings. Along with *Grand Upright*, *Bridgeport* is one of the most influential cases on sampling. But because the court in *Bridgeport* did explain its reasoning fairly thoroughly, critics can identify exactly where the court’s reasoning was faulty. This points to an avenue for legal reform in the area of sampling: allowing samplers options besides infringement, licensing, and fair use.

The *Bridgeport* court read section 114(b) of the Copyright Act—a provision that, among other things, *limits* the rights of a sound recording copyright holder by restricting the reproduction and derivative work rights only to copies made via mechanical or electronic means—as extending the concept of “reproduction” in new ways when it comes to sound recordings, and extinguishing the *de minimis* doctrine for that category of work.⁷ The court reasoned that because 114(b) clarifies that the reproduction right in sound recordings only applies to reproductions of the “actual sounds” of the recording, that sound recording copyright holders possess complete dominion over all uses of the “actual sounds,” to the exclusion of most traditional copyright limitations and exceptions. (The court did allow that fair use might still apply.) But there is no good reason to read section 114(b) in this way. The court offers three bad ones: (1) Ease of enforcement, (2) that musical quotations are “of value,” and (3) that musical quotation is not “accidental.” These reasons are all are legally irrelevant. Bright-line rules are always easier to enforce and thus are appealing in certain situations. But that does not mean they are always necessary, or ever drawn in the right place. The fact that something is of “value” does

⁶ 410 F.3d 792 (2005).

⁷ It is relevant that *Bridgeport* is limited to sound recordings, and by its reasoning, brief excerpts of other kinds of copyrighted works, such as brief quotations of literary material, are not “reproductions” under copyright law.

not mean that it comes within the original copyright holder’s exclusive rights—were lawful uses of copyrighted works valueless, there would be little point in the law specifically allowing them. Finally, it is true that quotations are rarely “accidental.” But the same objection to this applies to the “value” rationale. Simply because a use of a copyrighted work is deliberate, and provides the user with something of value, does not mean that any rights were infringed. Copyright does not give a copyright holder the right to control all valuable downstream uses of the work. Nor should it. Copyright is a limited monopoly, not a complete one, and it is not necessary to expand it beyond the contours of the existing section 106 rights to achieve copyright’s constitutional purpose of promoting the progress of science and the useful arts.

Furthermore, any of these reasons could be easily applied to copyrighted works other than sound recordings, and none of them flow from a reading of the specific provisions of 114(b). Without 114(b), a very-precise “soundalike” recording of a famous sound recording would likely infringe the original’s copyright. Just as a reproduction of a pictorial work might be made with either a photocopier or a paintbrush, and just as a reproduction of a literary work might be made with either a computer or a quill pen, absent 114(b), there would be no reason to limit the reproduction right of a sound recording to reproductions made via mechanical means, such as recordings or digital duplication. But 114(b) changes that, and limits the reproduction right for sound recordings to reproductions made by certain means. But the statute does not change the meaning of “reproduction” in other ways, and does not support the interpretation the court gave in in *Bridgeport*.

Because the reasoning of *Bridgeport* is wrong, it is possible to apply copyright limitations to the sampling of sound recordings that many commenters simply ignore. A few of these follow.

1. Under the “substantial similarity” test, a use may not qualify as a “reproduction”

The fact that a sound recording may be used as “raw material” in another musical work does not mean that any rights in the original work have been infringed. A sample that is so transformed or distorted that it is not recognizable—even to the original artist—should not be considered a “reproduction” at all. The test for whether an infringement of the reproduction right has occurred is whether there is “substantial similarity” between the original work and the alleged copy. This means that “an average lay observer would recognize the alleged copy as having been appropriated from the original work.”⁸ Thus, in cases where a sample is not recognizable, there is no infringement.

For example, in its song “Pump Up the Volume,” the influential dance music group MARRS used material from a recording of the song “Roadblock” by the music team Stock Aitken Waterman (SAW). SAW member Peter Waterman called this use “wholesale theft,” but it is a strange sort of theft indeed where you have to be told about it from the “thief.” “Pump Up the Volume” was a hit song, played ubiquitously, yet SAW was not aware that it used any material from their work until MARRS member Dave Dorrell mentioned it in a radio interview.⁹ In situations like this, where there is no “substantial similarity” between the original work and the new one, the downstream use of a sound recording does not constitute a “reproduction” and does not infringe.

⁸ *Ideal Toy Corporation v. Fab-Lu Ltd.*, 360 F.2d 1021 (2nd Cir. 1966); *Original Appalachian Artworks. v. Toy Loft*, 684 F.2d 821, 829 (11th Cir. 1982).

⁹ See Richard Buskin, *MARRS “Pump Up the Volume,”* Sound on Sound (Aug. 2012), <http://www.soundonsound.com/sos/aug12/articles/classic-tracks-0812.htm>.

2. Only samples that, by themselves, pass the originality threshold can be a basis for a claim of infringement

Copyright protection “may extend only to those components of a work that are original to the author.”¹⁰ Some segments of a sound recording may not rise to the level of “originality” necessary for copyright protection to begin with. Thus, whether or not its source is recognizable, the use of a particular sample might not be infringing because the sample in question is too simple or unoriginal, by itself, to qualify for copyright protection. Because “copyright does not prevent subsequent users from copying from a prior author’s work those constituent elements that are not original,”¹¹ the use of such a sample can never be infringing.

In determining whether a sample is “original,” courts must be “mindful of the limited number of notes and chords available to composers and the resulting fact that common themes frequently reappear in various compositions, especially in popular music,”¹² and that “[e]asily arrived at phrases and chord progressions are usually non copyrightable.”¹³ Thus, it should be a fair assumption that, a single note, chord or chord progression, or other brief segment of a sound recording should not be enough to merit copyright protection by itself.¹⁴ This is not a hard and fast rule—for example, the chord that opens The Beatles’ “A Hard Day’s Night” may be original

¹⁰ *Feist Publications v. Rural Telephone Service Co.*, 499 U.S. 340, 361 (1991).

¹¹ *Harper & Row Publishers v. Nation Enter.*, 471 U.S. 539, 547-48 (1985).

¹² *Gaste v. Kaiserman*, 863 F.2d 1061, 1068 (2d Cir. 1988).

¹³ *Jarvis v. A & M Records*, 827 F. Supp.282, 291 (Dist. NJ 1993). While a performer may add original elements to a performance not present in the composition, it should not merely be presumed that a performance of non-copyrightable material is copyrightable itself.

¹⁴ It is sometimes argued that the selection of a sample by a remixer is enough to demonstrate that the sample must be original, because why else would the remixer have selected it? But a remixer may choose a sample for any number of reasons—e.g., as a cultural or historical reference—that do not have to do with the nature of the sample itself. Besides, if a remixer is going to use a sample at all, she has to use a sample from *somewhere*, and the act of selecting a sample by itself might not have any significance beyond the need of the remixer to have raw material of some sort or the other.

enough to merit copyright protection on its own.¹⁵ But a plaintiff arguing infringement should be required to demonstrate that the sample in controversy is enough, by itself, to merit copyright protection.

3. The de minimis doctrine should play a larger part in music sampling discussions

The *de minimis* doctrine is a fundamental part of American law. As the Supreme Court put it, “the venerable maxim *de minimis non curat lex* (‘the law cares not for trifles’) is part of the established background of legal principles against which all enactments are adopted, and which all enactments (absent contrary indication) are deemed to accept.”¹⁶ It applies to copyright law as it does every other area of law.¹⁷ However, because of misapprehensions similar to (or stemming from) the *Bridgeport* case, *de minimis* remains an under-utilized doctrine in the area of sound recordings. Just as minor or incidental copying does not infringe in other areas of copyright (even if it is deliberate), courts should more readily find that small, insignificant, incidental, or otherwise minor acts of copying are noninfringing under the *de minimis* doctrine.

At the outset, the doctrine of *de minimis* copying should be distinguished from some of the other limitations and exceptions to copyright law discussed elsewhere in this section. In *Fisher v. Dees*,¹⁸ the court states that “[a]s a rule, a taking is considered *de minimis* only if it is so meager and fragmentary that the average audience would not recognize the appropriation.” But this “rule” appears more appropriately to be a restatement of the substantial similarity test. It is true that the *de minimis* concept is broad and there is considerable conceptual overlap between

¹⁵ Hard Day’s Night: A Mathematical Mystery Tour, NPR (Dec. 27, 2008), <http://www.npr.org/templates/story/story.php?storyId=98743259>.

¹⁶ *Wisconsin Dept. of Revenue v. William Wrigley, Jr.*, 505 US 214 (1992).

¹⁷ *See Newton v. Diamond*, 349 F.3d 591 (9th Cir. 2003) (finding that the Beastie Boys’ use of material from a musical composition was *de minimis*).

¹⁸ 794 F. 2d 432, 434 fn.2 (9th Cir. 1986).

substantial similarity, originality, and even fair use and *de minimis*.¹⁹ The court in *Newton v. Diamond* recognized as much, when discussing the Fisher case and “the relationship between the *de minimis* maxim and the general test for substantial similarity.”²⁰

One way to reconcile these relationships is to view *de minimis* as a superset of other doctrines. It may be accurate to say that any copying that occurs where there is no substantial similarity or where there is no copyrightable material is *de minimis*. But this does not mean that all *de minimis* copying falls into these kinds of categories. It would be most productive for courts to apply a *de minimis* analysis that is not merely duplicative of other tests. The doctrine of *de minimis* sampling could therefore be usefully applied in cases where the sampled material is copyrightable, and where the sample is recognizable to a lay listener (at least, to a lay listener who is trying to hear the sample), yet the use is so minor that it does not infringe.²¹

Such an analysis is necessarily case-by-case, and attempts to reduce *de minimis* analysis to a universally-applicable tend to restate the *de minimis* doctrine as a form of fair use, originality, or substantial similarity. Courts should generally avoid over-formalization of *de minimis* and instead flexibly apply the doctrine to cases where, according to their discretion, it seems appropriate. For example, the use of a recognizable and copyrightable sample as a cultural reference should generally be non-infringing, just as literary quotations are. Even if recognizable

¹⁹ *Sony Corp. of America v. Universal City Studios*, 464 US 417, 451 fn.34 (1984) (“Here again, is the partial marriage between the doctrine of fair use and the legal maxim *de minimis non curat lex*.”) (citing A. Latman, FAIR USE OF COPYRIGHTED WORKS (1958), reprinted in Study No. 14 for the Senate Committee on the Judiciary, Copyright Law Revision, Studies Prepared for the Subcommittee on Patents, Trademarks, and Copyrights, 86th Cong., 2d Sess., 30 (1960)).

²⁰ 349 F.3d at 594.

²¹ It could be used as a “fallback” test to resolve disputes about trivial uses of copyrighted material where it is too difficult to decide originality or substantial similarity.

and copyrightable, the use of a brief sample as a non-primary element of a new sound recording should make a finding of *de minimis* use more likely.²²

While many scholars have noted that the *de minimis* doctrine is unfoundedly ignored and underused in the area of sound recording copyrights, jurisprudence applying the doctrine is still rare. In part, this stems from *Bridgeport*-type confusions that grant sound recording copyright holders more expansive rights than those enjoyed by holders of copyrights in music compositions, literary works, and other protected forms of expression. This unnecessarily complicates the legal environment surrounding sampling and unnecessarily stifles creativity.

The Task Force is to be commended for examining creative ways to encourage remixing and create a more certain legal environment for remixers. However, the Task Force should consider looking past a framework that sees infringement, licensing, and fair use as the primary or only alternatives.

II. First Sale in the Digital Environment

In addressing how the first sale doctrine can be preserved in the digital environment, it is important to address the goals of the doctrine in the first place. In particular, the first sale doctrine is what allows the owners of copies to exercise their property rights over their chattels, despite the fact that copyrighted works may be contained within these tangible objects. The copy

²² An example of this is the use of the “hey” sample from James Brown’s *Funky President in Clique* by Kanye West, Big Sean, and Jay Z. As is evident upon listening here, <http://www.whosampled.com/sample/169588/Kanye-West-Big-Sean-Jay-Z-Clique-James-Brown-Funky-President/>, this extremely brief sample is not a key element of the new song and is instead used as a secondary percussive element. While it is not at all clear that this sample meets the substantial similarity or originality tests, even if it does, this kind of sampling is a good example of *de minimis* copying.

owner's rights reflected in the first sale doctrine must be preserved regardless of the medium in which a work is fixed, and regardless of the technologies by which copyrighted works are sold.

A. Inherent Benefits to Property Ownership Preserved by First Sale

Preserving personal property rights over copies of copyrighted works can be regarded as an end in itself, but it also has several clear utilitarian goals as well.²³ In particular, (1) ownership of copies increases access to works, (2) promotes their preservation, (3) reduces transaction costs, and (4) preserves the privacy of consumers. It also allows for users to make private annotations and other helpful modifications, as well as promoting platform competition.²⁴

1. Increasing Access

The first sale doctrine promotes access to works in a number of ways. It permits books to be lent to friends and shared by a family. Without the first sale doctrine, there could be no libraries, and schools might have to re-buy textbooks every year for each student. The first sale doctrine also enables secondary markets: Used bookstores and music stores obviously depend on the first sale doctrine, as do video rental services. Even yard sales and estate sales are only able to find new owners for books and other media thanks to the first sale doctrine. Secondary markets do not merely provide access to media that would otherwise be unavailable, often at lower cost, but they provide access in a variety of transactional formats than publishers would necessarily provide on their own. For example, rental and subscription services are business models created by entrepreneurs who depend on the first sale doctrine.

²³ See Molly Van Houweling, *The New Servitudes*, 96 GEO. L. REV. 885, 898-905, 914-16 (2008); R. Anthony Reese, *The First Sale Doctrine in the Age of Digital Networks*, 44 BOSTON COLLEGE L. REV. 577 (2003); Joseph P. Liu, *Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership*, 42 WM. & MARY L. REV. 1245, 1303, 1310-11, 1320-21, 1330-33, 1336 (2001).

²⁴ See Aaron K. Perzanowski & Jason Schultz, *Digital Exhaustion*, 58 UCLA L. REV. 889, 894-901 (2010).

2. Preservation

Preservation also is a natural benefit of the first sale doctrine. Allowing non-exclusive ownership of copies of copyrighted works promotes the dispersal of different copies in different locations, enhancing the chances of at least one copy surviving as time passes.²⁵ Indeed, it is only the first sale doctrine that permits books to be passed down through the generations—without it, a father would infringe copyright if he left his personal library to his children in his will. Should a copyright holder, or any other party, have the centralized authority to control access and distribution of copyrighted works, the inherent tendency to minimize secondary markets and reinforce sales of new goods would reduce the chances of preservation through dispersal. In more formal contexts, too, preservation without permission prevents a party who desires to manufacture or curate a particular account of the history of their works from removing non-public domain works from the public record.

The benefits of access and preservation also work in concert to allow for discovery of works by new audiences. The persistence of copies of works beyond the time during which they are exploitable by copyright holders, combined with the unrestricted exchange of copies, allows the serendipitous discovery of works that plays a key role in cultural transmission. The used bookstore, secondhand record store, and garage sale share this role, in different ways, with libraries. Not only can particular works be accessed for less; but many works that may be underrepresented in new sales will also be more represented, and at discounted prices that

²⁵ See, e.g., Brent Evan Walker, *The Survival of Films Often Depends Upon Who Distributed Them*, Mack Sennett: A Celebration of the King of Comedy and his Studio, Films, and Comedians, Feb. 17, 2010, <http://macksennett.blogspot.com/2010/02/survival-of-films-often-depends-upon.html>. (“Universal Pictures—which was founded 100 years ago in 1910 by Carl Laemmle as the Independent Motion Picture Company (IMP)—dumped most of its silent films in the ocean. The majority of Universal silent features that survive today exist only because film collectors saved 16mm Universal ‘Show at Home’ prints of those films.”)

encourage experimentation with non-marketed works. This extends the value of existing works that may not otherwise reach an audience, and that unforeseen audience can serve to further introduce those works to more members of the public.

3. Transaction Costs

A more fundamental advantage of assuring chattel ownership of copies of works is the way in which it brings transaction costs in copyrighted works down to a manageable level. Assuring the owner of a copy that she has complete control over its distribution removes from her the transaction cost of determining the copyright holder and requesting permission for distribution. Even assuming that copyright holders would freely grant distribution licenses with individual copies, each consumer would be saddled with the cost of interpreting the (likely detailed and varying) licenses on each copy. The debates leading up to the decision in *Kirtsaeng v. John Wiley & Sons, Inc.*²⁶ also highlighted potential transaction costs imposed in the absence of first sale. If, as Wiley argued, the applicability of the first sale doctrine depended on the place of manufacture, each owner of each copy would be required to investigate the location of the copy's manufacture before selling or lending it.

4. Privacy

The first sale doctrine protects the privacy of those who buy copyrighted works. Absent the ability for anyone to transfer ownership of a copy of a work to others, each sale of a work becomes affirmative knowledge of readership. Records of business transactions thus become much more direct reports upon individuals' reading, listening, and watching habits, removing a

²⁶ 133 S. Ct. 1351 (2013).

source of easy anonymization that could otherwise protect individuals who might be persecuted for seeking information about their conditions or beliefs.²⁷

The first sale doctrine, then, is not just a limitation on the distribution right; it is a reconciliation of the personal property rights of the copy owner with the intellectual property rights of the copyright owner, with all of the attendant benefits that that provides.

B. First Sale Encompasses More than Distribution Rights

The first sale doctrine is partly codified in section 109, which makes it clear that the lawful owner of a copy owner does not infringe copyright by further “distributing” her copy by selling it, lending it, or giving it away. But the first sale doctrine is older than this statutory codification, and finds its source in the common law. Notably, the doctrine goes further than merely limiting a copyright owner’s distribution rights, and more comprehensively assures that the owner of a copy is able to exercise all the incidents of chattel ownership over her property, by modifying, repairing and displaying it, in addition to alienating it.

The history of this reconciliation is present throughout the history of the doctrine. In *Bobbs-Merrill v. Straus*, the Supreme Court was expressly concerned with the possibility for copyright restrictions on “vending” creating a restraint on alienation that would bind future owners of copies. Having divested themselves of the physical object, the seller has “parted with

²⁷ Perzanowski and Schultz also identify two other distinct benefits of the first sale doctrine: increased user innovation and platform competition. In brief, ownership of a copy generally permits unobjectionable user modification and improvement of that individual copy of a work (such as handbags made from books or clocks made from CDs, let alone highlighted textbooks or sheet music with added fingering notation); as well as reducing consumers being locked in to particular platforms, since they can recover costs of media by reselling them to repurchase in the new format. *Digital Exhaustion* at 897-901.

all right to control the sale of it.”²⁸ This reflects a longstanding concept of common law against the “ordinary and usual freedom of traffic in chattels.”²⁹

But the owners of copies are entitled to do more than just distribute those copies against the wishes of the copyright holder; as Section 109 recognizes, owners of copies of works have the right to publicly display those works.³⁰ This right goes beyond simply setting the copy out for the public to view it; the statute also explicitly allows display via other technologies, so long as the display is of no more than one image of the copy at a time.

Beyond even this, though, courts have allowed displays of modified copies as well. In *Lee v. A.R.T. Co.*, the Seventh Circuit held that A.R.T. was not infringing any copyrights when it bought prints of Lee’s artwork, modified them by mounting them on ceramic tiles, and resold them.³¹ Although Lee could plausibly argue that A.R.T. was not merely displaying or distributing the original works,³² the Seventh Circuit allowed the tiles under the first sale doctrine, noting simply that “[a]n alteration that includes (or consumes) a complete copy of the original lacks economic significance. One work changes hands multiple times, exactly what § 109(a) permits, so it may lack legal significance too.”³³

This rationale, though more recently expressed by the Seventh Circuit in explicitly economic terms, is not a new one. Cases throughout the past century, including many predating *Bobbs-Merrill*, recognize the ability for owners of copies to make a number of modifications

²⁸ 210 U.S. 339, 350 (1908).

²⁹ *Digital Exhaustion* at 889-90; Zechariah Chafee, Jr., *Equitable Servitudes on Chattels*, 41 Harv. L. Rev. 945, 981-82 (1928); *John D. Park & Sons Co. v. Hartman*, 153 F.2d 39 (6th Cir. 1907).

³⁰ 17 U.S.C. § 109(c). Of course, owners of copies are also able to use their copies in any of the countless ways that do not implicate any of the exclusive rights enumerated within section 106.

³¹ 125 F.3d 580 (7th Cir. 1997).

³² *See Mirage Editions, Inc. v. Albuquerque A.R.T. Co.*, 856 F.2d 1341 (9th Cir. 1988).

³³ *Lee v. A.R.T.*, 125 F.3d at 581.

that, today, would arguably have implicated the 106(2) right to prepare derivative works, or even the 106(1) right of reproduction.³⁴

For instance, in *Harrison v. Maynard, Merrill & Co.*, the Second Circuit allowed a defendant, to take unbound book pages damaged by fire, rebind them, and sell them.³⁵ This, despite the fact that the copyright holder had originally sold the pages to another party under the condition that they be used as scrap paper. The Second Circuit reasoned that “the right to restrain the sale of a particular copy of a book...has gone when the owner of the copyright and of that copy has parted with all his title to it.”³⁶

In 1901, the Seventh Circuit similarly allowed a reseller to repair and resell damaged textbooks, including replacing missing covers with replicas of the original cover designs.³⁷ The sale of the books, the court held, “carried with it the ordinary incidents of ownership in personal property.”³⁸ This included not just the right of alienation, but also a “right of repair or renewal,” held by the current owner of the copy, which included the ability to replace the covers with “exact imitation[s] of the original.”³⁹ This right to repair was explicitly drawn from doctrine in patent cases, which had held that ownership of a machine embodying an invention granted the owner the right to repair that machine without infringing the patent.⁴⁰ A right of repair for copies of copyrighted works might at first seem to exist by virtue of its exclusion from the exclusive

³⁴ *Digital Exhaustion* at 912-25.

³⁵ 61 F. 689 (2d Cir. 1894).

³⁶ *Id.* at 691.

³⁷ *Doan v. American Book Co.*, 105 F. 772 (7th Cir. 1901).

³⁸ *Id.*

³⁹ *Id.* at 777.

⁴⁰ *Id.* at 777, citing *Chaffee v. Belting Co.*, 63 U.S. 217, 223 (1859) (“Hence, it is obvious that if a person legally acquires the title to that which is the subject of letters patent, he may continue to use it until it is worn out, or he may repair it, or improve upon it as he pleases, in the same manner as if it were property of any other kind.”); compare *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 365 U.S. 336 (1961).

section 106 rights, but when it encompasses even some replacement, it would seem to at least acknowledge some tension between some of the 106 rights and the copy owner's rights.

The creation of even more recognizably modified copies was recognized throughout the twentieth century. In *Kipling v. G.P. Putnam's Sons*, a publisher lawfully bought unbound pages of Rudyard Kipling's copyrighted works, and bound them together with other existing works, including uncopyrighted poems and a biography of Kipling.⁴¹ Although the publisher clearly had the right to redistribute the purchased copies, in binding those pages to other works, it created a new, compiled work. The Second Circuit held that this was a valid exercise of the publisher's rights in the copies.⁴²

This line of cases, existing largely apart from the lineage of *Bobbs-Merrill*, points to a principle of copy ownership that goes beyond the right of alienation or a right of public display. The same rationale would seem to apply to a child's art-project collage just as well as that by a notable artist: if the new work, though composed in part of a plaintiff's work, actually incorporates the lawfully made and acquired copy of the original work, it should be lawful, as the Seventh Circuit says, since in consuming the copy, it lacks economic significance.⁴³ The same rationale pervades the other cases mentioned above. *Bobbs-Merrill* notes that copyright laws operate by "protecting the owner of the copyright in his right to *multiply* and sell his production."⁴⁴ In other words, uses of the work that do not multiply economically significant

⁴¹ 120 F. 631 (2d Cir. 1903).

⁴² *Id.* See also *Fawcett Publications v. Elliot Publishing Co.*, 46 F. Supp. 717 (S.D.N.Y. 1942) (allowing defendant to bind comic books from two different publishers together and resell the collected works as "Double Comics.").

⁴³ *But see Rosebud Entertainment, LLC v. Professional Laminating LLC*, Civ. No. WDQ-12-04252013, 2013 U.S. Dist. LEXIS 10368 (D. Md. July 24, 2013) (declining to apply the first sale doctrine for magazine covers laminated onto commemorative plaques or copied and embedded within crystal, but finding both to be fair uses).

⁴⁴ *Bobbs-Merrill*, 210 U.S. at 350 (emphasis added).

instances of the work (whether by reproducing copies, generating new public performances, or producing multiple new derivative works) should be left for the owner of the copy to exercise.

C. Digital Uses and Copy Ownership

The foregoing history demonstrates how first sale is not just about permitting the resale and lending of copies of works, but more comprehensively protecting the traditional rights of copy owners without prejudicing the legitimate interests of copyright owners. It is a doctrine that evolved through the common law, informed by the traditional rights that owners of any chattel have over their own property.

Many of the ways first sale has traditionally operated, however, have been called into question in the digital era. While copyright law still concerns itself with “copies,” a “copy” might now be nothing more than a series of bits on a disc—or stored as the state of a series of floating-gate transistors on flash memory chips.

In some respects, Congress has acted to further the rights of copy owners in the digital era by clarifying that owners of copies of software are entitled, under some circumstances, to make reproductions of that software. For instance, owners of individual copies are entitled to do more than simply distribute and display them. Because using computer programs necessarily results in them being copied in computers’ RAM, in 1980, Congress created a statutory limitation for these necessary reproductions that largely parallels first sale.⁴⁵ Congress also expressly recognized the right of the software copy owners to make backup copies. However, the various other changes in the way that digital media and technology affect the 106 rights have not been thoroughly addressed by section 117.

⁴⁵ 17 U.S.C. § 117. Section 117 also explicitly allows the owners of computer programs to create backup copies of their programs—a measure which could be seen as a modern parallel to a right to repair.

In short, the rights and values that the first sale was designed to protect are inadequately addressed by the formulations of sections 109 and 117, and ensuring the continued viability of the first sale doctrine in the digital age will require the recognition of a number of facts that were not apparent in the last few decades of the twentieth century. The Green Paper notes one of these facts—that digital copies have the potential to be essentially perfect—but two other, separate aspects of digital technology are more likely to have a direct effect on first sale.

First, nearly all digital copies of copyrighted works must be reproduced in order to be used. Section 117 only recognizes this fact for computer programs, and not digital media such as audio, text, and video files.

Secondly, bandwidth and storage have become affordable enough that many, if not most, consumers, are not buying copies already fixed in tangible media, but rather are paying to have works fixed into tangible media that they already own. A consumer buying an mp3 from an online retailer may own a “copy” in the sense of the Copyright Act, but only insofar as he owns the tangible medium of his hard drive (or solid state memory), on which a copy of the copyrighted work is stored.⁴⁶

A third development developed less through technological change, but via new business practices that evolved in a now-defunct legal environment. End-User License Agreements (EULAs) for software typically now state that, despite any appearances to the contrary, the consumer never owns the copy of the work she buys. Such terms are ubiquitous in transactions

⁴⁶ Since a copy of a copyrighted work is, by definition, a material object, a digital download is a “copy” cognizable under the Copyright Act only insofar as it is embodied in physical media. Typically, this will be the hard drive of the user who downloads it. Thus, any dispute over the ownership of the particular copy necessarily involves the question of who owns the portions of the user’s hard drive containing the work. As we will cover below, this results in the absurdity, when copyright holders claim ownership of downloaded copies, of copyright holders asserting chattel ownership of portions of consumers’ computers and other devices.

involving software, but the potential for their expansion into other forms of digital media present the prospect of undoing much of what *Bobbs-Merrill* accomplished.

These developments come together in two of the scenarios identified in the green paper: the inability for consumers to transfer (and use in other ways) copies they have lawfully purchased, and the potential elimination of copy ownership altogether for digital media.

1. Reversing Bobbs-Merrill Through Licensing Terms

*Vernor v. Autodesk, Inc.*⁴⁷ highlighted the potential for erosion of the first sale doctrine with regard to EULAs. Like many, if not most, commercial software today, Autodesk's AutoCAD program was sold with a EULA that specified that title to the copy of the program was retained by Autodesk; Autodesk claiming that the copy was licensed, and not sold to the user.⁴⁸ This formulation was born of a time when the copyrightability of software itself was in question, and represented an attempt to stretch chattel rights to fill the potential gap left by copyright.⁴⁹ Today, however, such provisions serve as a significant barrier to the application of section 109. Since section 109 applies the first sale doctrine only to "owners" of copies, this brief disclaimer in the EULA, according to *Vernor*, serves to render section 109 inapplicable. Thus, the terms of an agreement between Autodesk and a third party determine whether or not Vernor, with no privity to that agreement, is liable for copyright infringement.

⁴⁷ 621 F.3d 1102 (9th Cir. 2010).

⁴⁸ This formulation—the idea that a physical object, and not a copyrighted work, is “licensed” instead of “rented,” “borrowed,” or “leased” tends to obscure the distinction drawn in section 202 between the copyrighted work and its embodiments in individual copies.

⁴⁹ See *Softman Prods. Co. v. Adobe Sys.*, 171 F. Supp.2d 1075, 1083 (C.D. Cal. 2001). But even in their early days, EULAs were at least in part intended to get around the first sale doctrine; in fact, section 109's current prohibitions on renting software grew up out of enforcement concerns, and were cited by the Third Circuit in 1991 as rendering EULAs that specified that transactions were licenses and not sales “largely anachronistic.” See *Step-Saver Data Sys. v. Wyse Tech.*, 939 F.2d 91, 96 (3d Cir. 1991).

In two separate ways, then, *Vernor* appears at odds with *Bobbs-Merrill* (and other cases that similarly recognize that printed notices are insufficient to trump traditional rights of copy ownership, such as *UMG Recordings, Inc. v. Augusto*⁵⁰). First, *Bobbs-Merrill* was concerned about how restrictions on distribution could bind parties with no privity of contract with the copyright holder at all.⁵¹ Second, *Bobbs-Merrill* refused to reserve rights to the copyright holder despite the copyright holder’s expressed, written desire to do so. The Supreme Court discounted the printed disclaimer that “no dealer is licensed to sell [the book] at a less price, and a sale at a less price will be treated as an infringement of the copyright.”⁵² The Court refused to treat this disclaimer as a license, in contrast to the *Vernor* court’s enforcement of the EULA as a valid restriction of rights.⁵³ The use of the term “license” within the disclaimer did not make the notice a valid license; nor, would it seem, would a more explicit labeling of it have changed the Supreme Court’s holding. Notably, it cites approvingly a patent case where the claim to a license was more explicit than that in *Bobbs-Merrill*; this too was rejected.⁵⁴

It seems likely that the sort of license contemplated at the creation of the first sale doctrine was more than a boilerplate set of terms unsupported by the understanding of the parties.⁵⁵ For most consumer software, the interaction between merchant and consumer bears all

⁵⁰ 628 F.3d 1175 (2011), refusing to enforce a purported license agreement that claimed that a record label retained title in a CD and only licensed the copy.

⁵¹ *Bobbs-Merrill*, 210 U.S. at 350.

⁵² *Id.* at 341.

⁵³ *Id.* at 350 (“There is no claim in this case of contract limitation, nor license agreement controlling the subsequent sales of the book.”).

⁵⁴ See *Cotton Tie Co. v. Simmons*, 106 U.S. 89 (1882) (patented cotton bale ties stamped “licensed to use once only” could be reused without infringing patent).

⁵⁵ Software manufacturers need not fear that *Bobbs-Merrill* prevents the leasing of software any more than the traditional caution against restraints on alienation prevents companies from leasing or selling cars. All that this means is that if a buyer has an objectively reasonable belief, based upon the characteristics of the transaction, that she is buying a copy and not leasing it, the first sale doctrine should apply.

the hallmarks of an outright sale: a single copy of the software is exchanged for money in a one-time transaction. Whether the software is embodied in an optical disk like a CD or a DVD, the copyright owner makes no serious effort to reclaim the media later. In the case of a downloaded copy, the copyright holder makes no claim on ownership of the portions of the user's hard drive that contain the work. To any eyes but those of a lawyer inspecting the EULA, the consumer has bought a single copy of the software, while the copyright holder retains copyright in the work.

Despite this, courts and commentators have given significant weight to terms of EULAs, apparently provided they formulate their notices properly. If this were true, it represents a de facto reversal of a century-old precedent, unless the lesson to be drawn from *Bobbs-Merrill* is, in fact, that publishers can restrain alienation if their licensing attorneys are careful enough.

The consequences of this holding, so far, have largely been limited to the realm of software. It would seem improbable, for instance, for book publishers to attempt to baldly challenge *Bobbs-Merrill* by placing more detailed EULAs in the inside covers of new paperbacks. However, clicking through EULAs without reading them has become a necessary evil in paying for all manner of digital media today.⁵⁶ Many, if not most, platforms style the transaction as a license in their EULAs, despite references on websites and online stores to “buying” and “owning” copies. Two related concerns stem from this state of affairs. First is that retailers not deceive consumers as to the nature of the transaction. Second is the need to ensure that media can be purchased at all. While copyright holders are under no legal obligation to sell

⁵⁶ Expecting consumers to bear the informational costs of reading, comprehending, and making the Hobson's choice of assenting to all of these agreements is, at best, a convenient fiction. In the similar realm of privacy policies, one study has estimated that users reading all relevant privacy policies would cost each person 76 work days a year, to the tune of an estimated \$781 billion annual opportunity cost to the United States. Aleecia M. McDonald & Lorrie Faith Cranor, *The Cost of Reading Privacy Policies*, 4:3 I/S: A JOURNAL OF LAW AND POLICY FOR THE INFORMATION SOCIETY 540 (2008), available at http://moritzlaw.osu.edu/students/groups/is/files/2012/02/Cranor_Formatted_Final.pdf.

copies of their works, they should be required to be clear if they are not selling copies at all, providing consumers with the information necessary to make their purchasing decisions wisely. That such information might create incentives for reasonably priced sales in a number of formats is a consequence that copyright holders should be prepared to deal with.

The effect of EULAs upon de facto owners of copies extend beyond restrictions on distribution (and display), though. Since section 117, like section 109, only applies to owners of copies, the standard EULA, which claims that the user is not the owner of the copy, renders section 117 inapplicable.

The consequence of this is potentially more severe than the inapplicability of section 109. While a consumer's liability exposure in the absence of section 109 would only become apparent upon her attempting to distribute a copy of the work, a user's liability in the absence of section 117 is triggered every time he uses the computer program.

Until digital consumer media became commonplace, it was nearly unthinkable that the ordinary, private use of a copy could trigger copyright liability. However, thanks to a rigid interpretation of the reproduction right and the essential nature of computing technology, every running of a copyrighted application, playing of an mp3, or watching of a video file bears a threat of liability that is imperfectly and flimsily covered by section 117. For files that do not fit within the statute's covered "computer programs," each use by the consumer must be subject to explicit or implicit permission of the copyright holder, justified as a fair use or other non-infringing form of reproduction, or a possible source of liability. Even for computer programs, a lack of ownership, as determined by the EULA, or even through the use of a friend's borrowed laptop, results in the same threat of illegality.

It is not speculation to say that copyright holders have attempted to use this oversight in the law to their advantage: game companies have tried to bootstrap contractual disputes into copyright infringement, with its attendant statutory damages and other enhanced remedies.⁵⁷ The formula for doing so is simple: a copyright holder offers digital media in a format that indicates a sale, but claims that it retains ownership of the copy. Absent copy ownership, each use of the game by the consumer would be a copyright infringement, unless the user abides by the terms of the EULA. A universe of possibilities exists for those terms, including anticompetitive, speech-restrictive, or other restraints on the consumer's behavior.

A copyright holder could thus place restrictions on consumers that fell well outside of the section 106 rights, such as restricting private performances or preventing use with competitors' products. While publishers are free to make such conditions as terms of contracts, an outdated facet of the current legal system should not allow them to escalate such terms into copyright disputes in the context of digital media.

It is something of a historical accident that courts grant the terms of software EULAs the power to do exactly what the Supreme Court refused to grant to the notice in *Bobbs-Merrill*, and what courts refuse to grant similar "agreements" in cases like *Augusto*. The interests that consumers have in their copies of software or digital books are not inferior to their interests in their paperbacks or DVDs, and the mere length or wording of a purported agreement should not be enough to make that so.

2. User Distribution of Downloaded Works

One of the most prominent limitations of section 109 in the digital sphere is that consumers' attempts to "distribute" digital works will, for the most part, necessarily require

⁵⁷ See, e.g., *MDY Indus., LLC v. Blizzard Entm't, Inc.*, 629 F.3d 928 (9th Cir. 2010).

some form of reproduction of the work, and not merely a distribution. Whereas a consumer who buys an audio CD can easily resell it after she is done with it, a consumer who buys an mp3 online as a download cannot readily hand over the physical medium of his hard drive. Despite the ease with which consumers may transfer files, both the Copyright Office and a few district courts⁵⁸ have determined that such transfers are reproductions and not distributions, and therefore not within the scope of section 109.

However, if the first sale doctrine—or at least the rationale behind it—does encompass more than simple distribution, it should not be a stretch to see how such reproductions can be accommodated. If, indeed, the point of the first sale doctrine is to ensure that owners of copies can exercise their chattel rights over those copies while preventing them from undermining the copyright holder’s monopoly on the multiplication of instances of the work, then allowing non-duplicative transfers should serve this purpose.

This is precisely the issue that ReDigi attempted to address. It seems uncontroversial that, a good faith consumer who buys a digital download, transfers it to a friend, and then deletes it from all of his devices has not caused any more economic harm to the copyright holder than a consumer who buys a paperback and then gives it to a friend.

Given the fact that certain reproductions are necessary for the mere use of digital copyrighted works—a fact recognized, at least in part, in section 117—it should not be difficult to allow reproductions necessary and incidental to non-duplicative transfers of copies. Currently, section 109(a) only allows transfers notwithstanding section 106(3)’s distribution right.⁵⁹

⁵⁸ See, e.g., *Capitol Records, LLC v. ReDigi, Inc.*, 934 F. Supp.2d 640 (2013).

⁵⁹ This analysis presumes that a “distribution” covered by section 106(3) requires transfer of a physical copy, since section 106(3) specifies that the exclusive right encompasses only the right to “distribute copies or phonorecords,” where copies and phonorecords are both defined as material objects.

Although making a transfer of a digital copy may require a temporary reproduction, that reproduction does not result in an economically significant activity so long as the copy originally held by the transferor is deleted promptly. The existence, for a few seconds or a few minutes, of two copies of the work is no more economically cognizable than the reproductions made in RAM when digital media is merely used as intended.⁶⁰ So long as reproductions allowed by an updated section 109 meet the characteristics of being necessary and transitory, the first sale doctrine can be shifted into digital downloads cleanly.

The Green Paper notes the Copyright Office's 2001 concern that digital copies can be "perfect" copies, in the sense that there is no inevitable degradation of quality as digital copies are passed from user to user.⁶¹ This objection presents less of a problem than it might at first appear. The question of fidelity is a distinction between digital and analog reproduction; the current disjoint in the first sale doctrine is not along digital / analog lines, but along informational / physical ones.

Whether a particular copy is digital or analog does not inherently affect the application of the first sale doctrine; a digital CD can be distributed by its owner as easily as an analog vinyl LP. The durability of the physical media surely is not the grounds upon which the distinction between downloads and discs is made—it seems unlikely that Congress would decide to restrict section 109 for ultra-durable physical media.

It could also be argued that, since, section 109(a) intends to grant owners the right "to sell or otherwise dispose of" copies (as opposed to granting owners the right to "distribute"), it could allow for dispositions of copies that implicated other section 106 rights, such as the reproduction right, and that the mention of section 106(3) is merely meant to deal decisively with the most likely scenario.

⁶⁰ In fact, the temporary reproduction is even less economically significant than many other indisputably non-infringing reproductions, such as time-shifted copies, which can persist for hours, days, or longer.

⁶¹ Green Paper, 36.

Hesitation about a digital first sale regime instead seem to be more rooted in fears of runaway infringement—the current restrictions in section 109(b) on the rental of sound recordings and computer programs are linked to types of works that, in the 1984 and 1990, respectively, were recognized as being easily reproduced by ordinary consumers. However, the excess of caution that made home taping and command-line copying suspect thirty years ago can now be assuaged. Every type of media now faces the same pressures as before—it has long been possible for video-rental infringement to wreak havoc on the movie industry—and yet, even without the addition of motion pictures to section 109(b), this has failed to happen.

If the first sale doctrine is in fact a representation of individuals' personal property rights over their lawfully made chattels, then those rights—of alienation, display, repair, and simple use—should be assured regardless of how copyrighted works are sold. A number of different proposed mechanisms could bring these assurances into being,⁶² and the merits of each can be debated, but absent any solution, the first sale doctrine risks obsolescence in an ever-growing field of digital works.

The first sale doctrine has operated for over a century to ensure that the rights of copyright holders can be reconciled with the rights of property holders. Property holders have the right to use and to alienate their chattels, and these rights do not implicate the rights of a copyright holder, so long as they do not undercut the mechanism of copyright by allowing economically significant multiplications of the works onto the market. The first sale doctrine can

⁶² See Sherwin Siy, *Copies, Rights, and Copyrights: Really Owning Your Digital Stuff* 12, PK THINKS, <http://publicknowledge.org/files/CopiesRightsCopyrightsPKThinks2013.pdf> (noting proposals to expand section 117, allow reproductions essential to non-duplicative transfers, allow transfers of license-limited rights, and application of a *numerus clausus* principle to the types of transactions permitted with copyrighted works.)

thus be preserved by adapting existing law to account for works that are not fixed in portable media.

III. Statutory Damages

The current regime of statutory damages has created a number of significant problems. The extraordinarily wide range of available damages provides little guidance to courts in determining awards, and thus leads to punishing uncertainty for litigation parties—uncertainty to the point that courts and commentators have questioned whether the copyright statutory damages regime violates due process.⁶³ Furthermore, the per-work specification, multiplied by the minimum award of \$750, can rapidly escalate minor or good faith infringements into wildly disproportionate awards. Contributing to both of these issues is the fact that provisions of the statute that were intended to function as upper limits have actually led to disproportionate increases in awards. This is often due to the fact that infringement suits today encompass significantly different sets of facts than those contemplated when the 1976 Act (and the 1909 Act) were created. Among those unforeseen scenarios are the cases of individual file-sharers and those facing secondary liability for infringement.

These are not the only well-documented scenarios where the current section 504 regime leads to excessive awards. For instance, statutory damages are one of the major driving factors in the orphan works problem—the threat of statutory damages is what often prevents users from

⁶³ See William F. Patry, PATRY ON COPYRIGHT § 22:193.50 (2012), citing *Parker v. Time Warner*, 331 F.3d 13 (2d Cir. 2003); *In re Napster*, 2005 WL 1287611 (N.D.Cal. June 1, 2005); *Universal Music Group v. Lindor*, 2006 WL 3335048, at *3 (E.D.N.Y. Nov. 9, 2006); *Atlantic Recording Corp. v. Brennan*, 534 F. Supp.2d 278 (D. Conn. 2008); *Bridgeport Music v. Justin Combs Pub.*, 507 F.3d 470 (6th Cir. 2008); *Capitol Records v. Thomas*, 579 F. Supp.2d 12010 (D. Minn. 2008); *Sony BMG Music Entertainment v. Tenenbaum*, 721 F. Supp.2d 85, 89 (D. Mass. 2010).

risking liability from publishing and displaying orphan works. The ease with which damages multiply, and the wide range within which they can fall casts a pall over any potential copyright defendant, affecting the balance of litigation and the tenor of pre-litigation settlement demands.⁶⁴ Providing more rational limits or clearer guideposts for statutory damages can only improve the current situation.

A. General Rationales for Statutory Damages

The key purposes of statutory damages are described as (1) ensuring adequate compensation to rightsholders for injury and (2) deterring infringement. Examining these rationales in turn, though, it seems that section 504(c) creates penalties that go beyond those necessary for these purposes, particularly in the cases of individual infringers and secondary liability.

Under the current scheme, even the award of the statutory minimum will likely achieve both compensatory and deterrent goals. Few individual infringers are likely to shrug off a \$750 award, and for the vast majority of individual infringements, \$750 is already hundreds of times the value of the work at retail. For secondarily liable defendants, the values are even more daunting, given the number of works frequently at issue in secondary infringement litigation. In any case, the award of actual damages in such cases, combined with the potential for substantial fees and costs and the possibility of injunctive relief, would disincentivize potential defendants from simply using litigation as a means to receive a license.

⁶⁴ See, e.g., *Parker v. Time Warner*, 331 F.3d at 22 (“such a distortion could create a potentially enormous aggregate recovery for plaintiffs, and thus an *in terrorem* effect on defendants, which may induce unfair settlements.”).

B. Rationales for Section 504(c)'s Per-Work Calculation and Broad Range

The 1909 Act seems to bear some responsibility for today's problems with the 1976 Act's statutory damages regime. Both the per-work calculation and the creation of a wide range for statutory damages were reactions to flaws in the 1909 Act.

1. Per-Work Calculation

Section 504(c)'s reliance on a per-work calculation was a reaction to the possibility of calculating damages on a per-infringement basis. According to the Register of Copyrights in 1961, “[t]he motion picture and broadcasting industries have expressed some concern that statutory damages might be pyramided to an exorbitant total if a court should multiply the statutory minimum by the number of infringements.”⁶⁵ At the time, it seems, the initial recommendation was to set a minimum (\$250) and maximum (\$10,000) value for all infringements for which a defendant was liable.⁶⁶ Unlike the provision that was actually adopted, then, this set a maximum award for an infringement suit, regardless of how many infringements were made or how many works were infringed. This was later altered in order to prevent incentivizing defendants to infringe as many works as possible at any one time.⁶⁷

In other words, the per-work calculation was instituted in order to *prevent* excessive awards, at a time when the contemplated defendants—broadcasters and the film industry—were concerned about infringing a single or small number of works a large number of times. This stands in contrast to a large number of common infringement scenarios today. Products and services that store or manipulate existing copyrighted works can affect hundreds, or even millions, of separate works easily, all with an objectively reasonable, but mistaken, belief that

⁶⁵ Abraham L Kaminstein, Register of Copyrights, U.S. Copyright Office, REGISTER'S REPORT ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW 104 (1961).

⁶⁶ *Id.* at 105-06.

⁶⁷ PATRY ON COPYRIGHT § 22:156.

these activities are not infringing. Secondary liability, less developed, and a less prominent part of the law when the 1976 Act was drafted, has vastly increased the number of works that can be considered in one action for infringement.

Today's technology also makes it easy for users, lawfully and unlawfully, reproduce large numbers of copyrighted works. While a consumer shouldn't face liability for shifting music from her CDs onto her computer, the simple act of sharing that folder with a friend, while likely infringing, could easily create a multi-million dollar damages award, several orders of magnitude beyond any conceivable rationale or hope of recovery.

2. Range of Damages

The 1976 Act's statement of a bare range (with modifiers for willfulness, innocent infringement, and certain non-profit organizations) was clearly an attempt to avoid the morass of the 1909 Act's multiple, varying prescriptions for statutory damages, which recommended different methods of calculation for different types of works, with occasional minimums and maximums set for particular types of infringement.

However, it seems clear in light of the current interpretation of section 504(c) that the range is not serving to permit judicial flexibility, but rather results in courts awarding damages according to the statute that they believe are excessive. Looking at the 1961 Register's Report, it seems that juries are applying very different standards than those contemplated when section 504(c) was drafted.

For instance, in suggesting that broadcasters' and movie studios' concerns about excessive damages might be overblown, Register Kaminstein noted:

We believe that the danger of exorbitant awards in multiple infringement cases is more theoretical than real. In a few cases involving multiple infringements—*e.g.*, where various items in a copyrighted merchandise catalog were reproduced in a series of infringing catalogs—the courts have used this formula of multiplying the number of

infringements by \$ 250, but they did so to reach a result they thought just. We know of no case in which the court has felt constrained to use this formula where the resulting total was considered excessive. The present statute, however, is not clear on this point. It is conceivable that a court might construe the statute as requiring the use of this formula in multiple-infringement cases.⁶⁸

This is clearly no longer the case today. However, this section of the report also highlights another relevant fact: courts under the 1909 Act had the discretion to apply the per-infringement multiple as they deemed just, whereas today courts are compelled to apply the per-work multiplier mechanically. Register Kaminstein went on to recommend that the courts be allowed to assign any award between the minimum and maximum, with the caveat that “in no case should the courts be compelled, because multiple infringements are involved, to award more than they consider reasonable.”⁶⁹ This, of course, was when the \$250 to \$10,000 range was contemplated for all works at issue in a given suit.

In other words, the range, which over the course of two decades was increased to \$750 and \$30,000, was originally set as an absolute minimum and maximum. Presumably, the effects of applying this range per work infringed were not anticipated to include infringements of thousands or millions of works at a time by any company, and certainly not including the possibility that individuals might infringe hundreds or thousands of works. The Judiciary Committee Reports for the 1976 Act, for instance, give the example of a suit that involved the infringement of three works, setting a maximum statutory damage award of \$30,000.⁷⁰

Moreover, the Register’s report indicates the desire for statutory damages to at least resemble an award related to the loss suffered by the plaintiff, with a minimum award amount in order to deter unprofitable, small-scale infringements. The current application of statutory

⁶⁸ REGISTER’S REPORT at 105.

⁶⁹ *Id.*

⁷⁰ H.R. REP. NO. 1476, 94th Cong. 2d Sess. 162-63 (1976).

damages seems clearly divorced from those considerations, with nothing to guide juries making award determinations. Instead of the maximum acting solely as a ceiling, though, it seems plausible that many juries might see it as signaling that a just award lies somewhere in the middle of the range, at \$15,375 (or \$75,375 in the case of willful infringement).

This suggests several possible solutions to disproportionate statutory damages awards: courts should have the discretion to apply the per-work multiplier; a maximum statutory damages award should be set regardless of number of infringed works;⁷¹ and the statute could contain recommended guidelines for approximate awards. Proposals along these lines can prevent constitutionally suspect awards while fulfilling the deterrent and compensatory purposes of statutory damages.

IV. The Task Force Should More Thoroughly Consider The Positive Role Compulsory Licenses Might Play

The Green Paper's discussion of the online licensing environment asks for suggestions about ways that the government can "help the private sector improve the online licensing environment."⁷² Since the government is already involved in online licensing via existing compulsory licenses it is reasonable to assume that one of the ways the government can assist the private sector is through the refinement of its existing compulsory license policies. However, the Green Paper's discussion of the role government might play going forward is generally restricted to ideas such as "helping to provide better access to standardized rights ownership information."⁷³ Ideas such as this are good and the Task Force should pursue them. However, its

⁷¹ This maximum could be applied generally or in certain particularly troublesome cases, defined either by the likelihood of excessiveness or the lack of culpability by the defendant.

⁷² Green Paper, 103.

⁷³ *Id.*

consideration of the role of government would benefit from a more thorough consideration of the benefits of compulsory licenses.

Compulsory licenses are often adopted when “(a) new distribution media or technologies are introduced, (b) transaction costs are very high owing to the large number of licensors, and (c) where potential licensees need to obtain licenses from most or all of them to be effective. Compulsory licensing is also a preferred option when dominant players threaten to exercise market power anti-competitively.”⁷⁴ All of these factors are present in the online music space. New online music services need to access a comprehensive catalog of music to compete effectively, and absent a compulsory license have to negotiate deals with a small number of incumbent rightsholders. Many of the traditional justifications for compulsory licenses are thus present in the online music space.

However, these common justifications fail to consider how compulsory licenses, done right, can be beneficial to smaller artists and rightsholders. Without delving into the ongoing controversy about the rates that Spotify and similar new services pay artists, it does seem likely that larger rightsholders—due to their negotiating power—are able to demand higher rates than smaller ones. Furthermore, there are frequent reports that labels do not pass along adequate royalties back to their artists. All of these issues can be addressed through compulsory licenses, which can ensure that artists are paid in a more equitable manner.

One way to determine whether a compulsory license could be beneficial is to simply look to the market and see whether it is providing the kind of musical environment we want. Are artists being paid equitably? Are new artists treated fairly, or is the system skewed to favor established acts? Are different kinds and sizes of music distribution service able to reach the

⁷⁴ Matthew Fagin, Frank Pasquale, & Kim Weatherall, *Beyond Napster: Using Antitrust Law to Advance and Enhance Online Music Distribution*, 8 B.U. J. SCI. & TECH. L. 451, 523 (2002).

market and compete? Is online music viable as a standalone business or does it have to be cross-subsidized from other products? Does the structure of the online music industry promote musical creativity? While there is no guarantee that a compulsory license can successfully address any of the shortcomings in the marketplace today, they may be a viable way to help create a fairer and more competitive online musical environment. For these reasons, the Task Force should consider them in more detail.

Conclusion

In this process, the Task Force has identified a number of complex subjects that deserve serious further discussion. In these comments, PK has addressed only a few of them, urging the Task Force to recognize importance of ensuring that copyright laws balance the rights of consumers, audiences, and the general public against those granted to authors and artists, and that this balance of rights must be preserved as new technologies come and go. Further issues raised in the Green Paper and elsewhere likewise could benefit from additional consideration.