January 17, 2014

Hon. Lawrence E. Strickling
Assistant Secretary of Commerce for Communications and Information
United States Department of Commerce
1401 Constitution Avenue, N.W.
Washington, District of Columbia 20230

Hon. Michelle Lee
Deputy Under Secretary of Commerce for Intellectual Property and
Deputy Director of the United States Patent and Trademark Office
United States Patent and Trademark Office
600 Dulany Street
Alexandria, Virginia 22314 *Via email:* CopyrightComments2013@uspto.gov

Re: AIPLA Post-Meeting Comments regarding "Request for Comments on Department of Commerce Green Paper, Copyright Policy, Creativity, and Innovation in the Digital Economy," 78 Fed. Reg. 61337 (October 3, 2013); 78 Fed. Reg. 66337 (November 5, 2013); 78 Fed. Reg. 78341 (December 26, 2013) (Extension of Comment Period)

Dear Assistant Secretary Strickling and Deputy Under Secretary Lee:

The American Intellectual Property Law Association (AIPLA) respectfully submits these comments in response to the Department of Commerce's Notice of Inquiry regarding issues raised in the Green Paper on *Copyright Policy, Creativity, and Innovation in the Digital Economy* and in the December 12, 2013 public meeting.

AIPLA is a national bar association with approximately 15,000 members who are primarily lawyers in private and corporate practice, in government service, and in the academic community. AIPLA represents a wide and diverse spectrum of individuals, companies, and institutions involved in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property.

I. Introduction

On October 3, 2013, the Department of Commerce requested comments on several policy issues involving copyright and the internet raised in its July 31, 2013 Green Paper. Numerous stakeholders submitted comments, and the Commerce Department held a public meeting on

December 12. The Commerce Department also asked stakeholders to submit comments after the public meeting. AIPLA is pleased to submit these post-meeting comments.

AIPLA has studied the Green Paper, considered the pre-meeting comments, and attended the December 12 public meeting. We are impressed by the Department's comprehensive analysis of the key issues affecting the internet and copyright in today's digital economy, and by the commenters' detailed and thoughtful submissions that give a wide range of different perspectives.

In reviewing the written submissions and listening to the individual presentations at the public meeting, we found that many stakeholders appear to reiterate, and recommit themselves to, long-held positions on whether legislative reforms are needed or desirable. Our approach is different. Copyright law needs to keep pace with technological and marketplace developments, but it is falling behind because stakeholders and policy makers have not yet found middle ground to resolve their differences. AIPLA believes it is important to find ways to bridge the gaps between opposing positions and to identify proposals that appropriately balance creativity and innovation in the age of the internet.

We have identified two areas with broad applicability for owners and users of copyrighted works: digital first sale and statutory damages for large-scale digital uses of copyrighted works. For each of these areas, AIPLA discusses a number of issues, the resolution of which will be helpful to finding a reasonable middle ground.

II. Digital First Sale

The first sale doctrine permits the owner of a lawfully made copy to sell or otherwise dispose of that particular copy without the copyright owner's permission.[1] The doctrine allows countless transactions in the physical world – the resale of books, movies, and sound recordings, for example – and it is essential to balancing the rights of owners and users of copyrighted works.

Today's world increasingly is moving from traditional physical forms of distribution of copyrighted content to digital distribution. Digital is replacing physical as the preferred method of delivering books, music, and movies for large and growing numbers of consumers. Physical methods of distributing copyrighted material always will remain, but it is not an overstatement to say that digital distribution has become an essential part of the copyright system.

Two aspects of the first sale doctrine, however, limit its applicability to digital transactions, as the Green Paper points out.[2] First, the digital dissemination of a copyrighted work often requires the making of a copy. The doctrine limits only the copyright owner's distribution right, not the reproduction right; it does not allow the owner of a copy to make additional copies of the work. Second, many transactions in the digital world are styled as licenses, rather than sales. A

[1] 17 U.S.C. § 109.
[2] Green Paper at 35-36.

licensee does not "own" the copy, and under the first sale doctrine cannot sell or otherwise dispose of it outside of the terms of the license.

These limitations on the first sale doctrine lead to important policy questions in the digital economy:

1. Should digital transactions implicating reproductions or licenses be subject to some form of the first sale doctrine?

2. If so, how should a reasonable, balanced digital first sale doctrine be implemented?

We address each of these questions.

A. Rationale for a Digital First Sale Doctrine

The arguments for recognizing a first sale doctrine for digital transactions raise important concerns. In light of these concerns, should Congress consider expanding the doctrine, an across-the-board expansion to the digital world may be inappropriate.

The arguments in support of an expanded first sale doctrine raise some valid concerns. Individuals are entitled to exercise economic control over the personal property they pay for and own in the physical world, and, the argument goes, it should carry over meaningfully in the digital world as well. Moreover, a first sale doctrine may have economic benefits for the digital marketplace. In the online world, consumers have two basic sources for accessing copyrighted works: legitimate channels authorized by copyright owners or unlicensed pirate sites. An effective first sale doctrine could encourage users to choose the former, by giving them the opportunity to resell and thus recoup some of their payment for the lawful digital goods previously purchased. A law recognizing the first sale doctrine may have the consequence of fostering the growth of legitimate markets for copyrighted works, to the benefit of copyright owners, lawful online services, and consumers.

A number of valid arguments have also been raised in opposition to full-scale expansion of the digital first sale doctrine. Chief among them is the view that expanding the doctrine will encourage illegitimate copying and thus undermine lawful digital sales, as it may be difficult to ensure that the person who distributes his or her copy has parted with *all* copies of the work. This argument, however, has its limits. The first sale doctrine as it currently exists in the physical world likewise cannot ensure that the owner of the physical copy has not made additional copies before reselling it. Nor does it require the seller to discard any copies he or she previously may have made. Indeed, reproduction of physical copies regularly occurs today, as for example where users rip songs from their CD collections, save the tracks to a digital library, and then resell the physical CDs. Moreover, effective technologies may exist today to scan and identify, and delete (or render inoperable) copies that are in the seller's possession.[3] Such technologies, properly implemented, might ensure unlawful copying is kept to a minimum.

[3] *See Capitol Records, LLC v. ReDigi Inc.*, 934 F. Supp. 2d 640, 645-46 (S.D.N.Y. 2013).

B. Key Policy Issues

Should Congress consider implementation of a meaningful digital first sale doctrine, it may want to address a number of key questions. What changes to the Copyright Act are required? What limits, if any, should be imposed to avoid facilitation of unlawful copying? To what sorts of works should a digital first sale doctrine be extended? How can such a doctrine avoid serious negative unintended consequences? Ultimately, how can a reasonable and balanced digital first sale doctrine be implemented?

AIPLA addresses some of these key concerns:

- ***The "particular" copy requirement.*** The first sale doctrine currently in effect requires the owner of "a *particular copy* . . . to sell or otherwise dispose of the possession of *that copy* . . . ." 17 U.S.C. § 109(a) (emphasis added). That makes sense in the physical world: the owner of a hardcover book can sell that particular copy in his possession to a used bookstore, not unauthorized copies he may have made of the book. The notion of a "particular" copy in the physical world, however, does not have a direct analogy in the digital world. Reproductions of works in digital form invariably are made in the course of their ordinary use on computers (*e.g.*, RAM memory, transfer from a computer to a portable device) and online (*e.g.*, cloud storage), and it is nearly impossible to ensure that the "particular" digital copy is the one being sold or otherwise disposed of. Congress would likely need to address the concept of a "particular" copy should it consider expanding the first sale doctrine.

- ***No remaining copies in the seller's possession.*** If it decides to expand the first sale doctrine for digital transactions, Congress also would need to consider appropriate protections against unlawful copying. For example, ensuring that a digital first sale doctrine remains analogous to the doctrine in the physical world may require, to the extent reasonably possible, a way to completely dispossess the user of all digital copies sold or otherwise disposed of. The person who sells his or her hardcover book to a used bookstore presumably did not copy that book before selling it; he or she no longer remains in possession after the sale. For something analogous in the digital world, resellers – either individuals or services that facilitate such transactions – may have to undertake some efforts to ensure no other usable copies remain. This may mean requiring individual users to delete, or otherwise render inoperable, all digital copies not otherwise purchased. Congress could also consider imposing an affirmative duty on digital resale services to ensure that usable copies no longer remain in the user's possession, whether on the user's computer, devices, or cloud storage. No technology is perfect, and resale services might need to be shielded from liability for residual copies that slip through the cracks or for users who circumvent such deletion measures. Congress may need to decide what technological measures, if any, are reasonable to delete or deactivate remaining digital copies.

- ***"Lawfully made" copies.*** Any digital first sale doctrine implemented presumably would retain the existing doctrine's requirement that copies be "lawfully made under this title."[4] Piratical copies would not benefit from the doctrine. In the digital world, however, the identification of piratical copies may, in fact, be easier than in the analog world. Technologies currently exist which permit digital resellers to identify lawfully made copies. It may be possible to require digital resale services to implement reasonable technological measures to identify and distinguish between lawful and unlawful copies, and to permit only the sale or other disposal of lawful copies. This, requirement, coupled with the requirement in the preceding bullet point requiring reasonable measures to delete or deactivate remaining copies, may encourage digital services and copyright owners to work together to develop effective technological measures. Such arrangements may give copyright owners the ability to participate in revenue from the resale of digital goods.

- ***Defining who is an "owner."*** The first sale doctrine currently applies to the "*owner* of a particular copy . . . lawfully made under this title . . . ."[5] Given the prevalence of licensing agreements in the digital space, any expansion of a first sale doctrine for digital transactions should demarcate what attributes of "owner" would be "eligible" for the first sale doctrine and those who would not be eligible.

- ***Types of works covered.*** Congress also may need to tread carefully should it consider expansion of digital first sale to take account of the impact on different types of works, whether they are works which historically have existed in the analog world or have only existed in the digital space. Differential treatment, in some respect, is consistent with existing law, which affords different treatment to certain types of works.[6]

  Congress may also consider whether to limit first sale protection of certain physical works for which there exists a widespread and reasonable expectation of resale and transfer rights, such as books, movies, and sound recordings.

  Additionally, there would be a need to address the complex and thorny area of computer programs. Under existing law, computer programs often are licensed, and these licenses can significantly restrict a user's ability to transfer the software, can impose notable use restrictions, and can establish an ongoing relationship between the licensor and licensee.[7] Computer software has always been digital, and the settled expectations of parties to software licensing transactions are different from those of book, movie, and sound recording consumers, who for decades have experienced these works primarily in analog form. For these reasons, it may be desirable to preserve the existing law with respect to computer programs and not override computer program license terms.

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[4] 17 U.S.C. § 109(a).
[5] 17 U.S.C. § 109(a) (emphasis added).
[6] *See* 17 U.S.C. § 109(b)(1)(A) (generally exempting from the first sale doctrine the rental of computer programs).
[7] *See, e.g.*, *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010).

This leads to another question. Consumer goods (ranging from mobile phones to cars to refrigerators) frequently and increasingly contain embedded software that is preloaded onto the consumer good, is an inseparable element of the good, and is not separately distributed. For example, a preloaded Android operating system would be considered "embedded" because it is an inseparable part of the mobile phone that is not practicably available to consumers separately.[8] To the extent such embedded software is subject to licenses, Congress may want to consider addressing the question of whether such licenses should limit the ability of a person to sell or otherwise dispose of such goods.

III. Statutory Damages for Large-Scale Digital Uses

The Copyright Act authorizes courts to award statutory damages in a range from $750 to $30,000 per work infringed, and up to $150,000 if the infringement is willful. 17 U.S.C. § 504(c). Courts have considerable discretion to set the per-work amount within that range. Courts, however, have no discretion to set per-work amounts outside of the statutory range.

This lack of discretion has important consequences when it comes to digital infringement claims. Congress enacted the current statutory damages mechanism in 1976, long before the digital era. At the time, Congress expressly stated that one of the basic aims of the infringement damages provision is "to provide the courts with reasonable latitude to adjust recovery to the circumstances of the case, thus avoiding some of the artificial or overly technical awards resulting from the language of the existing statute."[9] Infringement lawsuits in the pre-digital era overwhelmingly focused on the infringement of one work or only a relatively small number of copyrighted works. In such lawsuits, the statutory range gave adequate discretion to judges and juries to fashion statutory damages awards appropriate for the alleged conduct.

Today, the digitization of copyrighted works combined with online dissemination technologies easily allow the copying and use of millions of copyrighted works. While the number of copyrighted works and the scale of their uses have increased dramatically, the statutory damages mechanism has remained essentially unchanged in the more than 35 years since the current Copyright Act took effect.

As a result, the mandatory minimum statutory damages exposure for large-scale digital uses is significant. A prime example can be seen in the Google Books case. There, the plaintiffs alleged infringement of potentially millions of copyrighted works, and they requested the minimum statutory award of $750 for each book copied by Google – in effect, an award of hundreds of millions or even billions of dollars.[10] The District Court, after years of litigation,

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[8] In contrast, the operating system and applications of a PC would not be "embedded" because they are available to consumers through separate channels.
[9] H.R. Rep. No. 94-1476, at 161 (1976).
[10] Andrew Albanese, "Damages Could Exceed $1 Billion in Authors Guild Case Against Google," *Publishers Weekly* (Aug. 6, 2012), at http://www.publishersweekly.com/pw/by-topic/digital/copyright/article/53444-damages-could-exceed-1-billion-in-authors-guild-case-against-google.html.

ruled that Google's activity constituted fair use.[11] While AIPLA takes no position on the Google Books case here, the undisputed facts of the case make clear that large scale digital uses can expose a defendant to extremely high mandatory damages awards. Such large awards may or may not be reasonable under the circumstances.

A. Rationale for Recalibrating Statutory Damages

Statutory damages for large-scale digital infringement claims implicate important policy concerns. On the one hand, copyright owners are entitled to seek – and they should receive – damages awards that adequately compensate for their losses, punish infringing activity, and deter future infringements. However, the amounts of such recoveries must be subject to reasonable limits. Claims that are extreme in size and vastly disproportionate to the economic effect of the infringement raise several questions:

- ***Congress's intent.*** Congress expressly intended the statutory damages mechanism to give courts "reasonable latitude to adjust any recovery to the circumstances of the case" and thereby avoid "artificial or overly technical awards."[12] Judicial discretion to set appropriate damages is at the core of the doctrine. Courts, however, have no discretion to reduce the amount of the award below the $750 per-work statutory minimum.[13] Where large numbers of alleged infringements are at issue – as they frequently are for digital uses of copyrighted works – Congress's intent to rely on judicial discretion may be implicated.

- ***Effect on innovation.*** The potential for extremely high statutory damages may discourage innovation by mass digitization and online services that use large numbers of copyrighted works. It is difficult, if not impossible, to quantify empirically how much innovation is discouraged by the current statutory damages system. Nevertheless, the potential legal exposure may create incentives that undermine investment in technologies, even where services have a good faith belief that their actions are lawful.

- ***Fairness.*** Extreme statutory damages awards may be unfair in two respects. They may give a windfall to plaintiffs who suffered much less harm than the amount of the award. And such awards may favor large, well-capitalized companies that can afford to bear the risk of litigating high-stakes claims. Companies like Google have the resources to defend against multi-billion dollar lawsuits; individuals and much smaller companies presumably do not. Those innovators may be pushed out of the market.

- ***Respect for the law.*** It is crucial that the public accept the system of rights and remedies that the copyright law establishes. The public will accept high damages awards to compensate copyright owners, punish offenders, and deter infringements where such awards are deemed fair. A law, however, that generates extreme results, hands out

[11] *Authors Guild, Inc. v. Google Inc.*, No. 05 Civ. 8136(DC), 2013 WL 6017130 (S.D.N.Y. Nov. 14, 2013).
[12] H.R. Rep. No. 94-1476, at 161 (1976).
[13] Or the $200 per-work statutory minimum for innocent infringements. 17 U.S.C. § 504(c).

windfalls, and imposes unduly harsh punishment may undermine public trust and support.

For these reasons, it is important to consider whether a recalibration of the current statutory damages regime with respect to large-scale digital uses of copyrighted works is warranted.

B. Key Policy Issues

In addressing statutory damages awards in large-scale digital infringement claims, Congress may want to look at a number of issues. In particular, whether it is appropriate to give judges greater discretion to set or adjust statutory damages. Giving judges greater discretion, however, raises several questions:

- ***Damages range.*** It is important to consider whether to keep the current dollar ranges ($750 to $30,000 per work, up to $150,000 per work for willful infringement, and down to $200 per work for innocent infringement) or to adjust the ranges to give judges greater flexibility or based on the type of copying.

- ***Remittitur.*** Congress may wish to consider whether it is appropriate to give judges discretion to remit statutory damages awards to amounts under the statutory range.[14] If so, should remittitur be subject to limits? One proposal to consider is whether to subject remittitur to a floor, perhaps no less than a multiplier of the actual damages suffered by the plaintiff or the profits plaintiff earned attributable to the infringement.[15]

- ***Burden on defendant.*** One justification for statutory damages is that it often is difficult for copyright owners to quantify the alternative measure of actual damages or the infringer's profits. Accordingly, Congress should consider whether it is appropriate to require defendants to bear the burden of proving, by a preponderance of the evidence, the actual damages suffered or the profits earned for purposes of determining a remittitur floor.

A properly formulated statutory damages provision has the potential to ensure substantial damages awards that compensate copyright owners, punish infringers, and deter future

[14] At least one district court has held that judges have discretion to remit jury awards of statutory damages, but currently such remittitur may occur only within the ranges set by the Copyright Act. *See Capitol Records, Inc. v. Thomas-Rasset*, 680 F. Supp. 2d. 1045, 1054-56 (D. Minn. 2010).

[15] For example, the multiplier might be something like 3 to 5 times actual damages or profits. Such a multiplier has precedent in copyright cases where courts award statutory damages as a multiple of a reasonable license fee for the infringing use. *See, e.g.*, *Impulsive Music, Inc. v. Bryclear Enters., LLC*, 483 F. Supp. 2d 188, 190-91 (D. Conn. 2007) (finding $10,000 for four infringements to be reasonable where licensing fees would have totaled approximately $3,000); *Broad. Music, Inc. v. R Bar of Manhattan, Inc.*, 919 F. Supp. at 660 (awarding approximately five times amount of estimated license fees, plus investigative expenses, noting that "[t]hat multiple of license fees is at the upper range of statutory damage awards in similar cases and is high enough to deter others from . . . violat[ing] the copyright laws"); *Golden Torch Music Corp. v. Pier III Café, Inc.*, 684 F. Supp. 772, 772-74 (D. Conn. 1988) (awarding more than five times license fees).

infringements. It could rein in extreme, disproportionate dollar awards that otherwise would result from an inflexible formula, and could give judges the needed discretion to set appropriate remedies as Congress intended.

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AIPLA thanks the Commerce Department for the opportunity to submit these comments, and we appreciate your consideration of them.

Sincerely,

Wayne P. Sobon
President
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