

Before the
U.S. Department of Commerce
Office of the Secretary
U.S. Patent and Trademark Office
National Telecommunications and Information Administration

In the Matter of the Request for Comments on)	Docket No. 130927852-3852-01
“Department of Commerce Green Paper,)	
Copyright Policy, Creativity, and Innovation)	Submitted January 17, 2014
in the Digital Economy”)	
)	
)	

**COMMENTS OF THE
SOFTWARE & INFORMATION INDUSTRY ASSOCIATION**

Introduction

The Software & Information Industry Association (“SIIA”) respectfully submits these comments to the Internet Policy Task Force (“Task Force”) in response to the Notice of “Inquiry on Copyright Policy, Creativity, and Innovation in the Internet Economy” published in the Federal Register on October 3, 2013.¹

SIIA is the principal trade association of the software and information industries and represents over 800 companies that develop and market software and digital content for business, education, consumers, the Internet, and entertainment.² SIIA’s members range from start-up firms to some of the largest and most recognizable corporations in the world. SIIA member companies are leading providers of, among other things:

- software publishing, graphics, and photo editing tools

¹ 78 Fed. Reg. 61337.

² A list of the more than 800 SIIA member companies may be found at:
<http://www.sii.net/membership/memberlist.asp>.

- corporate database and data processing software
- financial trading and investing services, news, and commodities exchanges
- online legal information and legal research tools
- protection against software viruses and other threats
- education software and online education services
- open source software
- and many other products and services in the digital content industries

One of SIIA's primary missions is to protect the intellectual property of member companies, and advocate a legal and regulatory environment that benefits the software and digital content industries. Consistent with these goals, for over thirty years SIIA has engaged in a comprehensive, industry-wide campaign to advocate a legal regime in the United States and abroad that adequately and effectively protects the intellectual property rights of its software and content industry members.

SIIA appreciates the Task Force's identifying of significant copyright issues in its "Green Paper" on *Copyright Policy, Creativity, and Innovation in the Digital Economy*. While SIIA is interested in issues relating to statutory damages, the government's role in improving the online licensing environment and the operation of the DMCA notice and takedown system and has responded to most of the questions posed by the Task Force relating to those issues, we are most concerned about the Task Force's examination of the first sale defense in the digital environment.

In sum, SIIA is concerned that potential application of the first sale doctrine to licensed material or other undue restrictions that may be placed on either the ability of publishers to license or the manner in which publishers license, will make it more challenging for publishers to recoup the investment they have made to develop new products and update existing ones and to widely distribute their products and services to the public in the manner that consumers enjoy today. We are also significantly concerned with the fallout from the *Kirtsaeng* decision and the imbalance in the first sale defense caused by the decision

First Sale in the Digital Environment

(Questions 7-12)

A good copyright law is one that balances many competing interests. In the case of the first sale defense, the competing interests are those of copyright owners whose interest is being able to control the distribution of copies of his or her copyrighted works and those of consumers and other users whose interest is being able to freely distribute the copies they own. Consequently, by asking for input about the potential benefits of the first sale defense without any context or consideration of how that defense is balanced against the interests of copyright owners exploiting their works through the distribution right, the Task Force set itself up to receive unhelpful, one-sided responses. And that is exactly what happened.

Many groups responded to the Task Force's first sale questions by stating that the first sale defense is beneficial because it promotes free and open commerce.³ These responses really do nothing more than simply re-state the purpose of any exception in the copyright law – which is to appropriately balance the interests of those who use copyright works against the exclusive rights that are granted to copyright owners under the law.

There is no doubt that free and open commerce is a good thing and that the first sale defense promotes free and open commerce. But granting exclusive rights to copyright owners also promotes free and open commerce by not only incentivizing innovation and creativity which results in new copyrighted works, but also by encouraging innovators and creators to distribute and otherwise make those copyrighted works widely available in an efficient and effective manner.

The exclusive right to distribute a copyrighted work granted to copyright owners by the Copyright Act is partially limited by the first sale defense in section 109 of the Act. There are three important limitations to the first sale defense that were raised in the Task Force's Green

³ See, e.g., Comments of the Computer & Communications Industry Association, at page 3, eBay at page 2, and Owner's Rights Initiative at page 2.

Paper: (i) that the first sale defense does not apply to licensed products, (ii) that, until the last year's Supreme Court decision in *Kirtsaeng*, the first sale defense did not apply to products made and sold abroad and then imported into the United States, and (iii) that the first sale defense does not apply to the transmission of digital works. Each of these limitations is extremely important to SIIA and its members and addressed in detail below.

A. The Importance of Licensing

The Internet has permanently changed the relationship between users and the software and information industries. Electronic commerce has provided users with more options, more alternatives and more opportunities than ever before. The richness and inherent value of electronic commerce and high-tech products to consumers is derived from the wide availability of software and content and the ease by which these products and services can be accessed and used by people with new high-tech products. For users of products and services that incorporate software and/or information, electronic commerce facilitated through licensing provides a robust new delivery channel. By using the Internet to deliver software and digital content, users can take advantage of the lower transaction costs, simplified delivery systems, direct interaction with providers, and minimal time-to-market.

Through licensing software and information publishers are able to meet customer needs – whether their customers are the general public or discrete customer groups – and at the same time protect against misuse of their rights. Licenses have allowed software and information publishers the flexibility to tailor their products to their various customers, adjusting features, benefits, rights, and price according to the needs of each customer base rather than a “one size fits all” model – a model which logically could require a higher price. Consequently, more often than not these licenses provide benefits to consumers not provided in a traditional sale limited by the first sale doctrine of current copyright law.

This has resulted in consumers now having unprecedented choice, convenience and access to informational, as well as creative, content and new high-tech products that simplify their lives.

Today's consumers benefit from access to a range of software and information products — the likes of which have never been seen before.

Thus, consumers are also enjoying unprecedented access to copyrighted works. Today's online marketplace offers consumers more opportunities to access copyrighted works anytime, anywhere than ever before. Many of the opportunities consumers engage in the analog world made possible by the first sale doctrine are being made available without that doctrine in the digital world, as illustrated in the following examples.

For several decades, the software industry has relied on a licensing model for the distribution, maintenance, and updating of its software products and services to and for its customers. Today, licenses govern most software transactions.⁴ The software licensing model permits a wider range of users to access and use software. A publisher need not reduce or degrade the function of its product in order to provide it at a reduced price appropriate for a particular market of users. Rather, the publisher can simply vary the rights of using it. So, for example, a software publisher may offer a fully functional “academic” version of its product to students at a deeply reduced price, but the rights granted do not permit use for commercial purposes.⁵ Similarly, “OEM licenses” bundle software with, or install software directly on, specific hardware, such as a scanner or desktop computer, and require the software to be used and distributed only with that hardware. Often, the hardware manufacturer was granted a deep discount as part of the OEM license terms. Another example is “site licenses,” which are defined by some geographic restriction on use, such as a specific company, area, or even department or floors of a building.⁶

Because software is virtually always licensed and not sold, the first sale defense does not apply. Someone who purchases a software license is not the “owner of a particular copy” under Section

⁴ See Software & Information Industry Association, *Software and Information: Driving the Knowledge Economy* (January 24, 2008) at 7-8, <http://www.siiia.net/estore/globecon-08.pdf>.

⁵ See, e.g., *ProCD, Inc., v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996) (“Instead of tinkering with the product . . . [software companies] turned to the institution of contract.”); *id.* at 1455 (“Terms and conditions offered by contract reflect private ordering, essential to the efficient functioning of markets.”).

⁶ See, e.g., Software & Information Industry Association & LicenseLogic LLC, *Certified Software Manager Student Manual* (SIIA Publications 2004) at 4:1–4:52

109 of the Copyright Act, they are an “owner of a license to use a copy” of the software. Thus, the first sale defense does not apply. But as shown in the examples above, even though the first sale defense does not apply to these software transactions, consumers are able to enjoy many of the benefits resulting from the first sale doctrine. Any change in the copyright law that made the first sale defense applicable to these software licenses would cause a very significant problem and would jeopardize the future availability of discounted software to those markets.⁷

These examples are not limited to the software industry. The textbook industry is rapidly moving to a licensing model for online and digital versions of their textbooks. The new digital textbook licensing model provides numerous benefits to students and teachers. Digital textbooks often come with special features, like embedded quizzes, electronic flash cards, the ability to share notes online with fellow students and/or embedded links to videos and articles from a professor’s lectures. These digital texts may also allow the teacher to monitor a student’s progress, the amount of time the student spends reviewing the material, and the student’s performance on the embedded quizzes and then use this information to determine what material the student may be struggling with and develop a personalized study plans to keep the student on the right track. Because these textbooks are digital they can be updated and edited much more quickly than analog texts and distributed to users almost immediately.

These are the new generation of textbooks for a new generation of students and teachers. The difference between traditional textbooks and the offerings in new digital and online textbooks is astonishing. But that’s not all that is different. The distribution and pricing model for these textbooks is also very different.

The average eTextbook costs significantly less than a new version of that same print textbook. For example, the digital version of the widely used textbook, “Biology” by Sylvia Mader and Michael Windelspecht, published by McGraw-Hill Education, costs \$120. Its traditional print counterpart is priced significantly higher at \$229. Many eTextbooks are also available for rental

⁷ See *Vernor v. Autodesk*, 621 F.3d 1102, 1114-15 (9th Cir. 2010)

by students – a business model that further lowers students’ textbook spending and has begun to reduce the market share of the traditional used book market.

There is one other trend that is further lowering students’ textbook spending — campuses and professors increasingly want course materials delivered “inside” their digital classrooms so they can ensure that all students have access to the same materials and they can see how each student is performing. This leads to increasing situations where the institution is the customer.⁸ The result of all these evolving business models has been a dramatic drop in student textbook spending from \$192 in the fall of 2008 to \$138 in the spring of 2013.⁹ These business models, and the resulting drop in students textbook spending, might not be possible if textbook publishers were no longer able to rely on licensing models and the inapplicability of the first sale doctrine.

Textbook publishers are able to offer their digital textbooks at lower prices because they save on printing, shipping and processing of returns. But another significant factor in the reduced eTextbook price is the secondary market. Because the publisher of a print textbook has to factor in the likelihood that the book will be resold by the original student buyer, either directly to another student or indirectly through a campus bookstore offering used books, the publisher has to set a higher price for the new print book in order to recoup its investment. Because the new features of these digital textbooks support a more personalized and interactive relationship between the publisher and students and teachers than a traditional textbook and because the publisher may continue to innovate and update these features more quickly than the traditional print cycle would allow, publishers license these materials. The license allows a more flexible, nuanced relationship between the publisher and consumers of the book. It enables teachers and students to use only the features they need, and pay only for what they use and for the time period for which they use it.

⁸ The institution may or may not pass the costs of the course materials onto students in the form of fees.

⁹ See Stephanie Simon and Madeline Will, *Textbook publishers revamp ebooks to fight used market*, 4-traders.com (July 23, 2013) at <http://www.4-traders.com/PEARSON-PLC-4000637/news/Textbook-publishers-revamp-ebooks-to-fight-used-market-17119420/>. (This is despite the prices of new textbooks rising about 6 percent a year. See GAO Report 13-368, *College Textbooks: Students Have Greater Access to Textbook Information* at 6 (June 2013) at <http://www.gao.gov/assets/660/655066.pdf>.)

In this model, license terms generally do not permit transfer to another user, though, if there were demand, it might be reasonable for publishers to offer a transferable license for a higher price. It is important to consider that the publisher has higher development and operating costs in offering rapidly changing, personalized features, such as embedded dictionaries or glossaries, highlighter and markup features, support for multiple electronic reader platforms, videos, testing with online scoring, testing analytics, and data storage so it can track and support each user's individual experience. To recoup these higher costs, publishers structure their licenses to restrict the downstream distribution of their textbooks so they can offer digital books to each of their users at a reduced price. If they did not restrict the resale of these books publishers would be forced to raise their prices. By licensing the textbooks at a lower price, students benefit from the lower cost and increased functionality of the digital textbooks and textbooks publishers are able to secure a reasonable return on their investment.

As is the case with software, discussed above, the first sale defense also does not apply to these licensed digital textbooks because a student who purchases a license to use the textbook is not the "owner of a particular copy" under Section 109 of the Copyright Act. Even though the first sale defense does not apply to these types of transactions, students, teachers and other users are able to enjoy many of the consumer benefits intended by the first sale doctrine. Any change in the copyright law that made the first sale defense applicable to these licenses would jeopardize the future availability of these materials.

Extending the first sale defense to licensed content would not only be injurious to publishers and users, but would also be contrary to the foundation of the first sale defense set forth in the *Bobbs-Merrill* case.¹⁰ The Court in *Bobbs-Merrill* – not unlike the Ninth Circuit in the *Vernor v. Autodesk* case¹¹ – was concerned with the manner in which the customer came into possession of the work. In several parts of the decision the Court clearly restricts the application of its decision to "one who has sold a copyrighted article, *without restriction*"¹² and those who "*made no*

¹⁰ *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908).

¹¹ *Vernor v. Autodesk*, 621 F.3d 1102 (9th Cir. 2010).

¹² *Id.* at 350 (1908) (emphasis added). (stating that "[i]n this case, the stipulated facts show that the books sold by the appellant were sold at wholesale, and purchased by those *who made no agreement as to the control of future*

decision as to the control of future sales.”¹³ The Court noted that “[t]here is no claim in this case of contract limitation, nor license agreement controlling the subsequent sales of the book.”¹⁴ Given the Court’s language, it is clear that the *Bobbs-Merrill* Court had no intention of extending the first sale defense to licensed works.

The same reasoning holds true today. If a consumer obtained a set of rights to a copyrighted work under license, and the consumer resells the work and asserts the first sale defense, the focus of the first sale analysis should be on the terms and conditions of the agreement itself. If there is an agreement between the copyright owner or its agent and the consumer and that agreement makes it clear that a license is being granted (or the copyright owner otherwise reserves title) and that the license contains certain restrictions on transfer and use that are not usually present with ownership, the transaction should be construed as a license for purposes of the first sale defense, and the first sale defense should be inapplicable to the transaction.

For example, software licensors typically limit their conveyance of rights to a licensee in a number of ways: by location of use, term of use, type of user, field of use (academic, non-commercial), use with certain hardware (“OEM”), transferability, and reverse engineering, to name just a few. In contrast to a licensee, a purchaser who becomes an “owner,” would have no such limits by contract and could use the copy of software however he/she wanted consistent with applicable laws, statutes, ordinances, etc.

While consideration of the types of restrictions that a licensor places on transfer and use within the agreement is important, it is not necessary or appropriate to also consider the types of restrictions that a licensor does *not* place on transfer and use. It should not be necessary that a license include certain terms to avoid conveyance of ownership, such as multiple payments or return of a worthless plastic CD. It is the code, content and associated rights that are valuable, not the vehicle of delivery or conveyance (whether CD, DVD, or data transmissions on the

sales of the book, and took upon themselves no obligation to enforce the notice printed in the book, undertaking to restrict retail sales to a price of one dollar per copy.” (emphasis added).

¹³ Id.

¹⁴ Id.

Internet). While a licensor theoretically could require destruction of the disc or erasing the data file, the transaction costs to enforce that restriction would in many cases dwarf the license fee and serve to do nothing more than inconvenience the customer, and thus it makes no sense to penalize licensors that omit such a requirement.

Consumers will be able to take advantage of new technologies and business models only to the extent that the laws do not inhibit the creation and use of new technologies and business models. If the law creates undue burdens on providers, the result will be increased transactional costs, without producing any corresponding tangible benefits to users, and in the end, both the providers and the users' interests will be harmed. This is especially true where the legal requirement on the provider is one that the user cares little about or has the ability to secure in the absence of any legal requirement.

If undue restrictions are placed on either the ability of publishers to license or the manner in which publishers license it will be more challenging for publishers to recoup the investment they have made to develop new products and update existing ones and to widely distribute their products and services to the public in the manner that consumers enjoy today. This is especially true with mass market click-through agreements and products offered through the cloud. Certain informational products can only be distributed through the use of license terms and conditions. If these terms could not be enforced, these products may not be distributed, and in some cases, the incentive to create certain products may have been reduced so significantly that these new products would never be created.

Some have argued that copyrighted products come bundled with long, legally complex click-wrap licenses that consumers do not read, and as a result most consumers do not know what they are really getting. This may be the case, but publishers have worked hard to make their agreements shorter and more understandable to their customers and will no doubt continue to make improvements in this area.¹⁵ To the extent this remains a problem, however, it is not solely or even primarily a copyright problem.

¹⁵ See e.g., SIIA webcast, Christopher T. Anderson, LexisNexis, *Content Gone Wild: What Happens to Your Content After It's Published* (Dec. 18, 2013) at

We are beginning to see a shift in the way consumers consume *all* products. “The next few decades will witness a massive decline in ownership. Renting, not owning, will become the primary way people [] consume.”¹⁶ Consumers may still own certain essential things and things they use very often, but “there will be little need to own things we use only occasionally (a fancy pair of shoes, most jewelry or that really nice pizza-making set).”¹⁷ This move toward licenses to use will have the positive benefit of giving consumers “more choice, convenience and opportunity to experiment.”¹⁸ It would be unwise and unfair to single out copyright products and treat them differently by creating licensing standards that apply only to copyrighted goods.

Consumers are faced with lengthy, complex agreements when engaging in common, every-day commercial transactions. They are present when renting a car, obtaining a credit card, getting a new cell phone, buying or selling items on an auction site, agreeing to a website’s privacy policy and in numerous other common-place commercial transactions engaged in by your average consumer. SIIA is not unsympathetic to this challenge and should the federal government wish to examine ways that customer expectation can be improved by all players in the commercial marketplace, we would have no objection, so long as it is not limited to or focused solely on copyrighted works.

The economic foundations of the software and information industries depend upon a licensing business model. “Overriding” such licenses would have far-reaching, adverse effects on everything from the availability of educational software and content, to warranties and support services, to the development of new products. It is therefore essential that the basic principle of freedom of contract be recognized and preserved by any legislation. Nothing in the law should

<https://copyright.webex.com/ec07011/eventcenter/recording/recordAction.do?theAction=poprecord&AT=pb&isurlact=true&renewticket=0&recordID=76023507&apiname=lsr.php&rKey=ef95227d3efec9a4&needFilter=false&format=short&&SP=EC&rID=76023507&siteurl=copyright&actappname=ec07011&actname=%2Feventcenter%2Fframe%2Fg.do&rnd=1669799775&entactname=%2FnbrRecordingURL.do&entappname=url02011>

¹⁶ See Auren Hoffman, *The Coming Decline in Ownership*, Summation Blog (Dec. 19, 2013) at <http://blog.summation.net/2013/12/the-coming-decline-in-ownership.html>.

¹⁷ Id.

¹⁸ Id.

restrict the rights of parties to enter freely into licenses or any other contracts with respect to the use of copyrighted works. This is more important now than ever before because in an increasingly digital knowledge economy it is almost certain that software and information publishers will make their products and services available subject to critical contractual terms that are essential to ensuring the widespread access to innovative new digital products and services.

B. The Impact of the Kirtsaeng Decision

There is no better example of the importance of the balance between copyright owners' distribution right and the first sale defense and the effects of upsetting that balance than the case of *Kirtsaeng v. John Wiley & Sons, Inc.*¹⁹ The case involved the legality of purchasing copyrighted textbooks that were made and sold overseas with the authority of the publisher and then reselling them into the United States without the publisher's authority. At issue in the case was whether the first sale doctrine applies to copyrighted products that were made abroad.

In a 6-3 decision, the Supreme Court overturned an earlier Second Circuit decision and held that the first sale doctrine applies to copies of copyrighted works that are legally manufactured abroad. In reaching this conclusion, the Court "concede[d]" that its decision would "make it difficult, perhaps impossible, for publishers (and other copyright holders) to divide foreign and domestic markets"²⁰ and that a "publisher may find it more difficult to charge different prices for the same book in different geographic markets."²¹

For years, limitations on use of the first sale defense for imported goods enabled copyright owners to engage in international market segmentation and price differentiation – like many other industries did and continue to do today. As Hal Varian noted regarding cases of this kind,

¹⁹ 133 S. Ct. 1351 (2013).

²⁰ *Id.* at 416.

²¹ *Id.*

“...differential pricing can provide very significant efficiency gains since it allows markets to be served that would otherwise not be served at all.”²²

Differential pricing also gave publishers and authors another arrow in their international anti-piracy quiver because allowing their works to be sold at lower prices in developing countries – which are also the countries most plagued by counterfeiting and piracy – increases the availability of legitimate copies, invariably lowering these piracy rates and ultimately turning pirates into customers. But the *Kirtsaeng* decision destroyed all that. If developing-market-priced international editions can be freely imported and sold into the United States, then differential pricing for developing-markets becomes unsustainable, legitimate copies of some of the world’s best pedagogy becomes unavailable within those developing markets, and, like Cinderella when the clock strikes midnight, consumers will revert back to obtaining and trafficking in pirated copies when publishers are forced to raise prices in those countries.

One response to the result in the *Kirtsaeng* decision has been changed business models from price-differentiation by market to a uniform pricing model, because textbooks developed for the United States can no longer be discounted for sale in developing countries without the risk of those lower-priced copies – intended only for developing countries – being exported into the United States to compete with the U.S. versions.²³ Needless to say, the uniform price is much closer to the higher U.S. price than the discounted, developing-country price.

In this new post-*Kirtsaeng* world, everyone loses.²⁴ The uniform pricing of textbooks will in many cases make it impractical for students in foreign countries to obtain these textbooks legitimately. This will result in publishers selling fewer textbooks abroad which in turn

²² Hal Varian, *Differential Pricing and Efficiency*, First Monday, Volume 1, Number 2 (Aug. 5 1996) at <http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=0CDMQFjAB&url=http%3A%2F%2Fwww.firstmonday.dk%2Fojs%2Findex.php%2Ffm%2Farticle%2Fview%2F473%2F394&ei=NL7OUuKCMcupsATJn4H4Cw&usg=AFQjCNH2xzSGgLzEVfBZ0b4NkIDZkFwLEQ&bvm=bv.59026428,d.cWc>

²³ See e.g., Lisa Campbell, *Cengage adopts global pricing after Kirtsaeng*, The Bookseller (Oct. 6, 2013) at <http://www.thebookseller.com/user/login?destination=node%2F210780>.

²⁴ The *Kirtsaeng* case dealt with the importation of physical goods that were sold. Thus, it has no direct effect on digital works transmitted in the online marketplace or works that are licensed, rather than sold.

diminishes publishers' opportunity to serve students and teachers in those markets, and consequently impairs U.S. publishers' ability to compete within and profit from these foreign markets, in turn, potentially diminishing future investments in the creation of new textbooks. As noted above, these higher prices will also encourage piracy, since fewer students may be able to afford the legitimate book. Since fewer books are sold, uniform prices may also be raised to cover development and production costs previously offset by foreign sales – operating costs that were previously spread over a larger global distribution market. To summarize, as a result of the *Kirtsaeng* decision, publishers will sell fewer books, U.S. consumers will likely pay more for these books, piracy rates will likely increase, and foreign students and consumers will no longer be able to afford U.S. books. In short, those ultimately harmed by this imbalancing of the first sale doctrine are not simply publishers and authors but also textbook consumers – students, teachers, universities, boards of education, governments, etc. – both foreign and domestic: in other words, all of us! The *Kirtsaeng* result is simply bad economic, social and copyright policy.

This result should be fixed by Congress. If done in a narrowly tailored and thoughtful way, legislation can restore balance to the first sale defense. This can be accomplished by – as Justice Kagan recommended in her concurring opinion in *Kirtsaeng* – restoring § 602(a)(1) of the Copyright Act to its rightful function of enabling copyright holders to prevent the unauthorized importation of copyrighted goods, which would thereby allow them to segment international markets. Addressing the problem in this way would allow copyright owners (under certain circumstances) to control importation and first sale in the U.S. market of copyrighted items manufactured abroad, but appropriately limit controls on resale once the product has been disseminated in the U.S. market.²⁵

Under this approach, if someone buys a copyrighted work in the United States, they can be assured that they have the resale rights, and will not need to verify manufacturing location and separately obtain resale rights, obviating any possible concerns from the parade of horrors that were raised in many amicus briefs filed with the Supreme Court. From an economic perspective this approach also makes sense because it reduces transaction costs for U.S. purchasers of

²⁵ See Keith Kupferschmid, *A Balanced Response to Kirtsaeng*, SIIA Blog Post, (Oct. 18, 2013) at <http://www.siiia.net/blog/index.php/2013/10/a-balanced-response-to-the-kirtsaeng-decision/>.

copyrighted products who want to re-sell these products in the United States since these purchasers would not need to spend resources verifying where these goods were manufactured.²⁶

On the other hand, this approach would permit copyright owners to challenge someone like *Kirtsaeng* who attempts to operate an international arbitrage regime through unlawful exportation. This policy would sustain geographical market segmentation, and in turn the availability of appropriately-priced products to meet market demand around the world. Unlike the result in the *Kirtsaeng* decision, amending Section 602 in this manner would transform the current “everybody loses” result into a win for U.S. consumers, a win for customers in overseas markets and a win for publishers and authors who desire to sell their products on a global basis.

C. Digital First Sale

It is of critical importance that we not simply heedlessly import the first sale defense into the digital environment without first asking whether doing so is necessary and desirable. Trying to force today’s digital works to behave like physical works of the past would be a step in the wrong direction and would have a chilling effect on the development of new business models and innovation.

The world is a very different place today than it was in 1908 when the Supreme Court decided the precedential first-sale case of *Bobbs-Merrill Co. v Straus*.²⁷ When that case was decided no one could have envisioned how new digital distribution technologies like the Internet would transform the way people access and use copyrighted works and the vast amount of copyrighted works that are available at any time, in any location, to any person.

It has been suggested that, as the marketplace moves toward a born-digital model – one where there is no physical version of the copy – the first sale defense will lose its vitality and

²⁶ See Guy A. Rub, *The Economics of Kirtsaeng v. John Wiley & Sons, Inc.: The Efficiency of a Balanced Approach to the First Sale Doctrine*, Fordham Law Review (Feb. 2012) at <http://fordhamlawreview.org/articles/2013/02>

²⁷ 210 U.S. 339 (1908).

consequently the first sale defense should be amended to create a so-called digital first sale defense that would allow the transmission of digital copyrighted works. There are several problems with this view.

First, to enact a so-called digital first sale doctrine would require the creation and implementation of “forward-and-delete” technology that automatically eliminates all copies owned by the original purchaser – no matter where such copies reside – simultaneously upon the digital transfer of the copy by the purchaser. No such technology exists today or in the foreseeable future. Even if such technology were to be available, it would be just a matter of time before it was hacked, allowing anyone to easily circumvent the law and burdening copyright owners with complex, costly and impossible problems of proof.

Second, even if such a technology were feasible in the future this argument fails to account for the inherent differences between physical and digital copies that dramatically affect the function and implementation of the first sale defense. For example, physical works degrade over time, whereas digital copies do not. Similarly, the more frequently a physical copy is used, the quicker it will degrade, whereas the frequency of usage has no bearing on a digital copy.

Transferring a physical copy is also significantly more difficult than transferring the digital copy. Transferring a digital copy is instantaneous and is unaffected by the identity of the transferee or transferor or by the distance between them. On the other hand, transferring a physical copy may take significantly more time, effort and money and is highly dependent on the identity or location of the parties. As the Copyright Office and many others have recognized, the manner in which physical copies are transferred “acts as a natural brake on the effect of resales on the copyright owner’s market.”²⁸ For these reasons, a digital first sale defense would allow “used” digital copies to compete *directly* with “new” digital copies on the secondary market. This is not the case with physical goods.

²⁸ Digital Theft Deterrence and Copyright Damages Improvement Act of 1999, Pub. L. No. 106-160, § 2, 113 Stat. 1774, 1774 (increasing minimum to \$750, maximum to \$30,000, and maximum for willful infringement to \$150,000).

D. Summary

If the Task Force initiates a multi-stakeholder process or future panels relating these important questions relating the first sale defense, we would like to participate to expand on our comments above and further explain the importance of licensing in our digital economy and the adverse impact of the *Kirtsaeng* decision as well as why a digital first sale doctrine would not strike the right balance, inhibit innovation and reduce flexibility and customer choice.

Statutory Damages

(Questions 13-15)

The ability of copyright owners to seek and obtain statutory damages provided for under the Copyright Act is extremely important. Statutory damages not only provide a means for compensating the copyright owner for damage caused by the infringement, but also serve as a deterrent to those who may consider engaging in similar infringing activities. When passing the *Copyright Damages Improvement Act of 1999* Congress made clear that the statutory damages provision in the Copyright Act is intended to ensure that “the cost of infringing substantially exceeds the cost of compliance, so that the persons who use or distribute intellectual property have a strong incentive to abide by copyright laws.”²⁹

The availability of statutory damages is especially important for cases of online infringements. In cases of online infringements “the scope of infringing use will often not be ascertainable, making it hard to prove actual damages.”³⁰ For example, when an illegal copy of a copyrighted work is posted online it is usually impossible to determine how many times that copy has been downloaded. Similarly, many services that engage in infringing activities earn a profit through advertising revenue (as opposed to profiting from the sale of each individual illegal copy), which usually adds to the difficulty in calculating damages.

²⁹ H.R. Rep 106-216, at 6.

³⁰ 78 Fed. Reg. 61,339.

Statutory damages also serve to protect legitimate services that partner with copyright owners to provide new services for consumers to access the copyrighted works. The availability of statutory damages deters unfair competition that might exist from competing services that try to “get a leg up” by providing unauthorized access to copyrighted works, thereby undermining the ability of these legitimate services to succeed.

At the December 12th panel discussion, the main concerns with the statutory damages provision seemed to be with the upper limit of \$150,000 per work being too high and the calculation of statutory damage awards being too ambiguous in the context of determining secondary liability, and that such ambiguity could impede innovation.

The concerns about the \$150,000 limit are misguided. Rarely, if ever, has a court awarded a \$150,000 per work statutory damage award. In the two most recent high-profile cases in this area – *Sony BMG Music Entm’t v Tenenbaum*³¹ and *Capitol Records, Inc. v. Thomas-Rasset*³² – the damages awarded were significantly below the \$150,000 per work maximum.³³ When the amount of the awards was called into question, both appellate courts held that the damage awards were appropriate and constitutional.³⁴

Since the statutory damage ranges were last adjusted over a decade ago infringement rates have skyrocketed. This is due large part to new digital technologies and services that make it easier than ever for anyone to illegally copy and distribute a copyrighted work. During this same period, the range of statutory damages has remained unchanged. In fact, when taking into account inflation, the statutory damage range has not been this low in well over a century.³⁵

³¹ 719 F.3d 67 (1st Cir. 2013).

³² 692 F.3d 899 (8th Cir. 2012).

³³ These two cases seem to garner the most sympathy even though both defendants were found to be acting willfully and egregiously and both damage awards were determined by juries.

³⁴ 719 F.3d 67 (1st Cir. 2013); 692 F.3d 899 (8th Cir. 2012).

³⁵ Thomas Sydnor & Debbie Rose, *Capitalist Copyrights: A Republican Reply to “Three Myths about Copyright”*, Copyright Alliance blog (Dec. 5, 2012).

Given rising infringement rates and the inflation-adjusted statutory damages range, a convincing argument can be made that the present statutory damage range is not serving its purpose as a deterrent. That does not necessarily mean that the range should be increased, but rather that the Task Force should consider possible improvements to the statutory damages regime amongst many other possible means for improving the deterrence of infringing online activities.

There was also some concern expressed that the calculation of statutory damage awards is too ambiguous in the context of determining secondary liability, and that such ambiguity could deter the creation of new, legitimate services or platforms for delivering content. These concerns likely have more to do with inconsistent and/or ambiguous application of secondary liability standards by courts when determining *whether a party is liable* under theories of secondary liability as opposed to the amount of damages that party should be ordered to pay once the court finds that it is liable for secondary liability. The statutory damages provision in the Copyright Act, of course, is applicable to the later, not the former.

Accordingly, we do not believe that an adjustment to the statutory damage provision for secondary liability is appropriate at this time. The Task Force should first examine the standards used to decide secondary liability with an eye toward assessing whether Congress and the courts need to make secondary liability determinations more predictable and understandable, and if so, how they can do so. To the extent the Task Force determines that there are flaws in the legal system relating to secondary liability and those flaws are hindering the development of new, legitimate services or platforms for delivering content or the creation or dissemination of copyrighted works, the Task Force should consider improvements to the legal system to address these problems. Once such changes are adopted and implemented, it is likely that any perceived problems with the statutory damages regime will dissipate. If not, then at that time it might be appropriate to re-visit the application of statutory damages to secondary liability.

Lastly, SIIA opposes the recommendation by the Stanford Center for Internet & Society/Electronic Frontier Foundation that “plaintiffs seeking statutory damages should be

https://copyrightalliance.org/2012/12/capitalist_copyrights_republican_reply_three_myths_about_copyright?page=s&how#.UrzuXvRDu3Y. (stating that “when adjusted for inflation, potential statutory damage awards for copyright infringement are now much lower than they were in 1909 and significantly lower than the[y] were in 1976”)

required to produce evidence of their actual harm, or the infringer's profits....” Such a proposal fails to adequately recognize the deterrent purpose of statutory damages and the immense difficulty in proving actual damages and/or lost profits in cases of online infringement. The existing statutory damages regime affords courts with the flexibility to fashion damage awards in a variety of different ways – including using actual damages as a basis for determining a statutory damage award. If enacted, the proposal would have the potential to dramatically increase the cost and complexity of litigation.³⁶ In sum, implementation of the Stanford CIS/EFF recommendation would have little beneficial effect while further diminishing the ability of copyright owners to exploit their exclusive rights by making copyright enforcement more time-consuming, complex and costly.

Government Role in Improving the Online Licensing Environment

(Questions 16-21)

Markets operate most efficiently when buyers and sellers can easily find one another. Yet our current copyright system does little to promote this concept. There are benefits to copyright registration that provide some incentive for copyright owners to accurately and timely register their copyrighted works with the U.S. Copyright Office. However, because registration is not mandatory (as necessitated by international norms, such as the Berne Convention for the Protection of Literary and Artistic Works) and creation of copyrighted works in the digital age is so easy, a great many copyrighted works are not registered with the U.S. Copyright Office or elsewhere, often making it extremely difficult to identify, locate and contact many copyright owners.

This problem is exacerbated due to the failure to record any subsequent transfers of ownership in a copyrighted work that is registered with the U.S. Copyright Office. This, of course, undermines the accuracy of ownership records retained by the Office. Moreover, even when the copyright owner has timely and correctly registered his work and recorded any transfer of the work it is possible that a reasonable and thorough search of the U.S. Copyright Office catalogs

³⁶ The damages litigation phase can be as lengthy and costly as litigating the merits of a case.

and records will not reveal the work. For example, a work may be difficult or impossible to find if it was registered under a different title or as part of a larger work. Also, because the U.S. Copyright Office registration records may not be updated in a timely manner, any search for a recently created copyrighted work may be unsuccessful.

For these reasons SIIA supports creation of an improved copyright infrastructure that enhances the ability of potential licensees and licensors of copyrighted works to find one another for the purposes of negotiating licensing agreements. U.S. law should more effectively promote the creation of new tools, technologies, databases, systems and processes for identifying and locating copyright owners. While the most obvious target to provide such encouragement may be the U.S. Copyright Act, other means should also be considered, such as the granting of a tax credit to businesses that create new tools for identifying and locating copyright owners, or the provision of financial assistance by the Small Business Administration to small businesses that create new copyright owner identification and location tools.

U.S. law could also do a better job of encouraging copyright owners to identify themselves. International agreements, such as the Berne Convention and the TRIPs Agreement, which prohibit the imposition of formalities that affect the enjoyment of one's copyrighted work, impose limitations on what the United States can do to force copyright owners to register their works, identify themselves, and record transfers of ownership. Although these agreements prevent the United States from using the "stick" approach to compel copyright owners to identify themselves, they do not restrict the ability of the U.S. Government to take the "carrot" approach by providing added benefits to those copyright owners who do register their works, identify themselves, and record transfers of ownership. One example of this approach, found in existing law, is the provision of statutory damages to copyright owners who timely register their copyrighted works with the U.S. Copyright Office. Perhaps, similar types of incentives can be created to encourage copyright owners to keep their locations up to date and to record any transfers of their copyrights. As noted earlier it may also be prudent to look outside the Copyright Act to provide these incentives.

At this stage, we do not think it is necessary or appropriate for the U.S. Copyright Office or any other government agency to take on the financial commitment necessary to create these new tools, technologies, databases, systems and processes for identifying and locating copyright owners.³⁷ Instead, steps should be taken – through market-based approaches in conjunction with legislation – to either directly provide for or strongly encourage the creation of the following tools:

- *Transfer of Ownership Database*: An easily searchable database designed to facilitate the tracking of information that identifies successors in interest whenever changes in copyright ownership occur with respect to copyrighted works, for example due to corporate mergers, acquisitions or dissolutions, inheritance, bankruptcy or divorce, other transfer of ownership.
- *Owner Identification and Location Database*: A database that tracks the identification and location of copyright owners. The database would document changes in information regarding the identity and location of the copyright owner, such as name change due to marriage, divorce or otherwise, newly revealed attributions or authorship (*e.g.*, due to ownership originally being misattributed, anonymous or pseudonymous) and change in residence.

These databases could be automated to enable copyright owners to easily update their records online. The operators of these databases could also push notifications to copyright owners to remind them to update their records at certain intervals or when inaccurate information in the database is discovered – much like what domain name registrars do under the ICANN 2013 Registrar Accreditation Agreement.³⁸ While submission of information to these databases would

³⁷ As a general matter, we believe that the U.S. Copyright Office needs improved funding, infrastructure and technical capabilities. If the U.S. Copyright Office were to take on these additional online licensing burdens without adequate additional funding it would only increase the Office's existing financial difficulties.

³⁸ See 2013 Registrar Accreditation Agreement at <http://www.icann.org/en/resources/registrars/raa/approved-with-specs-27jun13-en.htm> (requiring domain name registrars to conduct an investigation upon receipt of a complaint filed relating to inaccurate WHOIS contact information and, if the registrar determines that the WHOIS contact information is inaccurate it must take steps to correct the inaccuracy).

be strictly voluntary, strong incentives should be created to prompt copyright owners to keep their records up to date.

Because rights information and licensing are global in nature, the U.S. Government should engage in discussions with other countries through multilateral and bilateral discussions and through international bodies, such as WIPO, to determine how other countries are addressing online licensing database issues and to ensure that their efforts are compatible and interoperable with similar activities undertaken in the United States.

Lastly, SIIA is concerned about comments, submitted to the Task Force and voiced at the December 12th public meeting, expressing concern about the creation of these new database tools solely on the basis that such tools might have the effect of eroding the fair use defense.³⁹ By definition, the fair use doctrine allows for uses without the need to obtain a license from the copyright owner. In this regard, fair use is therefore distinct from, and complementary to, licensing. The fourth fair use factor does require a court to consider “the effect of the use upon the potential market for or value of the copyrighted work.”⁴⁰ Thus, as part of a court’s consideration of the fourth factor it will consider the *potential that a license to use the work was available* from the copyright owner. (emphasis added) But there is a difference between whether a license is available for a particular use and how a license is being made available. These new tools would simply make finding copyright owners easier and lower the transaction costs associated with licensing and should have no bearing on a court determination of the fourth fair use factor.

If the Task Force initiates a multi-stakeholder process or future panels relating to the government’s role in improving the online licensing environment, we would like to participate.

³⁹ See comments submitted by the Library Copyright Alliance.

⁴⁰ 17 U.S.C. 107.

Operation of the DMCA Notice and Takedown System

(Questions 22-25)

Several commentators have suggested that the DMCA notice and takedown system is broken and needs to be replaced. Others claim that the DMCA notice and takedown process is working just fine and should not be changed. SIIA believes that the truth lies somewhere in between.

The notice and takedown regime, as codified in section 512 of the Copyright Act, is an extremely important provision to the entire Internet ecosystem and its current basic structure should be maintained. It provides the right balance among the various stakeholders, has served as an excellent model for our foreign trading partners and provides a level of legal certainty that is necessary to spur development of innovative new online services and other technologies. While the DMCA takedown regime was an excellent model when it was enacted over ten years ago, it is certainly showing its age. Consequently, there is also a definite need to improve the operation of the current DMCA notice and takedown system and other areas of online enforcement more generally.

The following example is illustrative of the problems with the DMCA and online infringement more generally: Several SIIA members sued a website operator for selling pirated books online. They prevailed in the suit with the court awarding both damages and an injunction against the site and its operator. The site operator fled the country and moved the site from the United States to the Netherlands. The SIIA members then asked SIIA for help. We immediately contacted the payment gateway and site host and requested they take immediate action. The payment gateway responded fairly quickly and within a couple of days they had terminated their relationship with the site operator. However, by the following day the website operator had a new payment gateway. We contacted this new payment gateway but they were nonresponsive to our requests. The host of the site was likewise nonresponsive. We eventually secured the services of an IP enforcement agency located in the Netherlands that was able to get the site host to respond and take the site down, but not until after many weeks had passed and at significant cost in both attempting to remedy the problem and in the potential lost sales to our member companies. Two hours after the site was taken down it was back up and hosted by an ISP

located in Lithuania. We reached out to the Lithuanian ISP, but not surprisingly the ISP was nonresponsive. As a last ditch effort we contacted the domain name registrar in an effort to get the domain name terminated. The registrar was located in the United States. Despite having a copyright policy stating that they would terminate domain names for copyright violations *and* being informed of the court decision holding the site to be infringing, the registrar declined to terminate the domain name. In sum, SIIA and its members spent enormous amounts of money and time – including going as far as to obtain a ruling by a U.S. court that the site was infringing – and yet despite all these efforts the site continues to operate largely unimpeded. This is a poster-child example of why the copyright enforcement system needs to be improved and why that improvement needs to be accomplished on a global basis.

The notice and takedown process has been described as a game of whack-a-mole. No legislation or level of voluntary cooperation can change that. There will always be people who will attempt to circumvent the rules and re-post infringing material after they have been notified and the infringing material has been taken down (*i.e.*, repeat infringers). In addition to the repeat *infringer* problem, there is the repeat *infringement* problem – where the same infringing material is made available on a site multiple times by different individuals. What legislation and/or voluntary cooperation agreements can do to better address these problems is to make the notice and takedown process a much more efficient and effective one for both the copyright owner and the service providers. For example, when a copyrighted work, such as a test bank, is not made publicly available by the publisher, why does the test bank publisher need to send an ISP a takedown notice each and every time the test bank is illegally posted on a site? Shouldn't one takedown notice to the ISP from the publisher suffice since the test bank can never be legally uploaded?

There are some steps that the Federal Government, in cooperation with WIPO and other international organizations, can take to address some of these problems. For example, a centralized database of takedown notices can be created and ISPs can be provided with access to this database. ISPs could automatically check this database before agreeing to host a new website. Therefore, if the pirate attempts to re-post the website using the services of a different ISP, the ISP could first automatically check the database and reject the attempt. Search engines

and others could also be granted access to this database to prevent the domain name from being sold as a search term. This would help prevent a pirate whose website has been taken down by an ISP from creating the same website under a different domain name and then trying to direct traffic to the new website through sponsored ads on search engines using the old domain name as a search term. Of course, these steps would require the cooperation of the ISPs, search engines and others.

SIIA supports a multi-stakeholder dialogue aimed at minimizing the enforcement burden presently placed on the copyright owner and ISP communities due to the shortcomings of the DMCA's notice and takedown provisions. As part of this dialogue, repeat infringer policies and "red flag" knowledge should also be addressed as these two factors contribute to the large number of DMCA takedown notices being sent. If the Task Force initiates a multi-stakeholder process or future panels relating to the operation of the notice and takedown system, SIIA would like to participate.

Conclusion

We would like to thank the Task Force for giving us the opportunity to participate in this process and to submit these comments. Any questions or requests for additional information about these comments can be directed to Keith Kupferschmid, SIIA's General Counsel and Senior Vice President for Intellectual Property, at (202) 789-4442 or keithk@siia.net.