



Testimony of Sherwin Siy,
Vice President of Legal Affairs
Public Knowledge

Before the
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Committee on the Judiciary
Subcommittee on Courts, the Internet, and Intellectual Property

Hearing on:
The First Sale Doctrine Under Title 17

New York, NY
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Chairman Goodlatte, Ranking Member Nadler, and Members of the Committee, thank you for the opportunity to speak today on this critical issue of the first sale doctrine. My name is Sherwin Siy, and I am Vice President of Legal Affairs for Public Knowledge, a nonprofit public interest organization that promotes the public's access to information and culture through open, competitive, and universally accessible and affordable communications networks.

In my testimony today, I would like to emphasize one fundamental point: that the first sale doctrine is not simply an exception or limitation to copyright law, but that it is a fundamental principle that balances people's basic rights to their personal property with authors' rights to their intellectual property.¹

Our copyright law recognizes the distinction between a work: the creative thing set down by an author, like a novel or a song, and a copy: the physical object that houses that creative work, like a paperback or a CD.² The first sale doctrine puts that distinction into practice by making sure that, whether or not a piece of physical property contains copyrighted works, it obeys the same laws as other types of personal property.

In other words, first sale is a limitation or exception to copyright that is necessary because copyright creates big exceptions to the ordinary rules of personal property. I can do what I like with my personal property: for example, I can reproduce my keys, display my furniture, publicly operate and show off my car; I can resell my bicycle, modify my clothes, and so on.

But copyright law restricts these actions when it comes to copies of copyrighted works. Even if you own a particular paperback, you can't reproduce it—reproduction being one of the several things that section 106 of the Copyright Act generally restricts. The Copyright Act also restricts distribution and public display--meaning that, absent some accommodation of the copyright law, used bookstores, garage sales, and gifts of copyrighted works would be illegal--let alone the operation of our thousands of public lending libraries, as well as business models that have emerged for renting various types of copyrighted works over the years—including videotapes, DVDs, computer games, and now even textbooks.

¹ See Sherwin Siy, *Copies, Rights, and Copyrights: Really Owning Your Digital Stuff*, Public Knowledge, June 27, 2013, <http://www.publicknowledge.org/files/CopiesRightsCopyrightsPKThinks2013.pdf>; Aaron Perzanowski & Jason Schultz, *Digital Exhaustion*, 58 U.C.L.A. L. Rev. 889 (2011).

² 17 U.S.C. § 202.

The first sale doctrine allows all of these things to happen, and a formative part of its history is outlined in the case of *Bobbs-Merrill v. Straus*,³ which stands as one of the first and best articulations of the doctrine by the US Supreme Court. Without going into too much detail, in this case, one publisher, as part of a plan by a publishers' association to reduce discounts on books,⁴ placed a notice in the front cover of a novel that said the book was not to be sold for less than a dollar, and that selling it for less would constitute a violation of the publisher's copyright.⁵ When Macy's sold the book for 89 cents, the publisher sued.

But the Supreme Court rejected the idea that this short notice in the front of the book allowed the publisher to exert its control over the redistribution of the book throughout the lifetime of its copyright. In its current form in section 109,⁶ the doctrine is framed by saying that any lawfully made copy of a copyrighted work can be distributed or publicly displayed without the permission of the copyright holder.

This not only preserves the ability of retailers to set market-driven prices on books, DVDs, and other media they have purchased, it allows individual consumers to hold yard sales of copyrighted works and give them as gifts without seeking permission. It permits the existence of lending libraries that otherwise would either have to engage in complex and expensive licensing arrangements, or, in many cases, would simply not exist. In short, respecting the distinction between personal property and copyrights promotes both a vigorous economy and the personal rights and freedoms of consumers.

However, a number of issues are arising that suggest the first sale doctrine may lose some of its effectiveness, if current trends in technology and business continue. These trends include the increasing prevalence of restrictive and often deceptive fine-print licensing agreements, as well as the increase in digital media, including media that is sold as downloads, rather than on physical media like CDs.

Replacing Sales with Licensing Agreements

Recently, Aspen Publishers created a controversy when it sent an email to law professors that indicated that it would require students to return the print version of their casebooks at the end of the semester.⁷ In essence, Aspen was claiming that the print books were not being sold, but licensed to the students, thus making any resale or other redistribution of the used textbooks a copyright infringement, and destroying the secondary market for their textbooks.⁸ After much outcry, including many professors insisting they would refuse to assign such books for their classes, Aspen amended its policy.

Nevertheless, this story illustrates the fact that the incentives of publishers today are the same as they were in *Bobbs-Merrill*, and the techniques for eliminating secondary markets—and ownership of books—are similar to those tried over a hundred years ago.

³ 210 U.S. 339 (1908).

⁴ See, e.g., Ariel Katz, *The First Sale Doctrine and the Economics of Post-Sale Restraints*, 2014 BYU L.R. 55 66-9 (2014).

⁵ Verbatim, the notice read, "The price of this book at retail is \$1 net. No dealer is licensed to sell it at a lower price, and a sale at a lower price will be treated as an infringement of the copyright."

⁶ 17 U.S.C. § 109.

⁷ See Josh Blackman, *Aspen Casebook Connect Textbooks Must Be Returned At End Of Class, Cannot Be Resold*, Josh Blackman's Blog, May 5, 2014, <http://joshblackman.com/blog/2014/05/05/aspen-casebook-connect-textbooks-must-be-returned-at-end-of-class-cannot-be-resold/>.

⁸ Nor was Aspen planning on becoming the sole reseller of its own books; it encouraged students to continue highlighting and annotating their works, meaning that books returned to the publisher were likely to be pulped. See James Grimmelmann, *Aspen Doesn't Want You To Own Your Own Casebooks*, The Laboratorium, May 6, 2014, http://laboratorium.net/archive/2014/05/06/aspen_doesnt_want_you_to_own_your_own_casebooks.

Aspen's attempt to eliminate the used book market through the use of a licensing agreement should come as no surprise, though, since it reflects a longstanding practice of the software industry. Computer programs frequently come with a fine-print "End User License Agreement" that will, among other things, claim that the copy that the user purchased and installed on their computer was not actually sold to them, but rather a sort of long-term rental. Although software companies rarely, if ever, attempt to reclaim the copies they have sold, and in all other respects act as though the transaction was a sale, they will use the language of an agreement that few consumers have the time to read, and that none have the ability to actually negotiate, to claim that the transaction was actually a rental. These purported license agreements serve to eliminate a secondary market for software of the sort that has traditionally existed for books, music, movies, and other media.

Worse, these agreements can make infringers of people who have never entered into any contracts or agreements with the publisher. One of the most prominent cases about the resale of software involved a reseller who never entered into a licensing agreement.⁹ Yet because of the way section 109 and the agreement operated, he was found liable for infringement for buying and then reselling a copy of a computer program that he had never himself copied or installed. These agreements therefore create a sort legal curse that attaches to the object, specifically counter to the values embodied in *Bobbs-Merrill* and the first sale doctrine generally.¹⁰

The problem is not just that this harms the secondary market in computer programs, or even that it allows a particularly strange bootstrapping of fine print into a copyright complaint. Increasingly, more types of media are being sold digitally, and can easily be offered to consumers with exactly this sort of language buried in a clickthrough, which will claim that, despite the fact that she clicked on a bright yellow "BUY" button, a consumer was only renting her ebook, or album, or TV episode.

Essential-Step Copies and the Need to Update Section 117

The growth of digital media beyond computer programs brings me to the last set of issues I wish to discuss today. A fundamental issue with copyrights and digital technology is that merely accessing a digital file usually results in a copy of it being made, even if only in the temporary storage of a computer's Random Access Memory, or RAM. Other routine processes lead to copies being made of digital files in the course of their use, in buffers, caches, and other places. These copies, though temporary, can implicate the reproduction right, and make an ordinary computer user a potential copyright infringer merely for using a digital work as it was intended to be used.

In 1980, Congress recognized the problem this created with regard to computer software, and created essentially what is now section 117 of title 17.¹¹ Among other things, it ensures that the owner of a copy of a computer program can make any adaptations or reproductions of the program that are created as "essential steps" in the use of the program. This way, RAM or buffer copies of computer programs are not considered infringements.¹²

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

¹⁰ As the Supreme Court found recently in *Kirtsaeng*, the first sale doctrine's origins predate *Bobbs-Merrill* to at least the 17th, if not the 15th century common law refusal to permit restraints on the alienation of chattels. "A law that permits a copyright holder to control the resale or other disposition of a chattel once sold is similarly 'against Trade and Traffi[c], and bargaining and contracting.'" *Kirtsaeng v. John Wiley & Sons*, 133 S. Ct. 1351 (2013) quoting 1 E. Coke, *Institutes of the Laws of England* § 360, p. 223 (1628).

¹¹ Pub L. No. 96-517 § 10(b) (1980).

¹² Other parts of section 117 allow for other types of reproductions and adaptations for archival and maintenance purposes.

However, technology and business practices have led to section 117 covering less ground than it should. For one thing, the clickwrap and shrinkwrap agreements mentioned earlier have been used to claim that computer users were not the “owners” of copies, and therefore were infringing copyrights merely by using the computer programs they paid for in a way disfavored by the copyright holder. While consumers should be held to contracts they have fairly agreed to, the remedies for breach of contract should not be merged with copyright infringement.

Another problem that has emerged as technology progresses is that a vast amount of digital media consists of things other than computer programs. The mp3s being played on a phone, the photos or movies being displayed on a tablet, or the book being read on an e-reader are all subject to the same digital processes that generate RAM copies, buffer copies, and cached copies that computer programs do—yet section 117 does not explicitly cover them.

This problem relates closely to the third issue with digital copies—that transferring them requires reproductions, just as using them does. This is something that has arisen not so much with the increase in digital formats, but the trend of selling them as data, and not as physical media. While CDs are nothing new, the act of selling songs and albums without CDs is, relatively speaking. As a result, the Copyright Act does not specifically account for how consumers might distribute their copies of downloaded digital works without infringing the reproduction right. While some companies have attempted to deal with this by trying to create forward-and-delete systems that could fall within fair use, they have not so far been successful in litigation. Meanwhile, consumers who buy music, movies, or books are unable to resell them when they no longer want them, even if they delete them. Nor, in fact, would someone be able to give away those songs, movies, or books, or bequeath them to family, except in the form of the original hard drives they are stored on.

Potential Solutions

There are a number of potential resolutions to each of these problems; I will only focus on a few here.

1. Not Enforcing Deceptive Licenses

In the matter of clickthrough and shrinkwrap licenses undermining first sale, a number of consumer protection measures can be brought to bear. For instance, it could be made clear that when consumers are led to believe they are actually making a purchase through the characteristics of the transaction, a retailer may not renege on that through the use of a fine-print clickthrough or hidden license agreement. In case such as this, the most prominent representation of the transaction should hold.

This prevents initial consumers from being deceived into receiving less than they paid for, and it can prevent confusion in later transactions on the secondary market. Nor would it prevent software companies and other copyright holders from offering their works on a rental or lease basis; they would simply need to be clear and upfront about the nature of the transaction.

2. Numerus Clausus

Another way of preventing license agreements from creating overly baroque situations might be

to, in a certain way, treat the distribution of copies more like the transfer of real estate. Property law (in both the common law and civil law traditions) traditionally limits the types of interests a person might have in a piece of land. This principle of limiting types of ownership is often called “*numerus clausus*,” meaning “the number [of types of ownership] is closed.”¹³ In other words, for the sake of clarity and transactional certainty, pieces of land can only have certain types of ownership and burdens associated with them. This prevents later buyers or tenants from having to engage in meticulous investigations to find out what property rights they may or may not be violating.

The same can be true for copies of copyrighted works. As we have seen, the current system essentially allows intellectual property rights beyond those defined in the statute to be attached to individual copies.¹⁴ Someone who has never signed or even seen a license agreement can be bound by its terms and become an infringer. Limiting the sorts of restrictions that can be placed upon copies of works could prevent just this sort of surprise.

3. Updating Section 117 to Deal with Essential Copies

Finally, a number of adjustments to section 117 could clarify the law so that it takes a simpler and more logical approach to digital media.

First, section 117 should apply to copies of works generally, not just computer programs. That way, other forms of digital content, like music and movies, can have essential-step copies made, reducing the need for complicated licensing agreements (or at least reducing the complexity of necessary licensing agreements).

Second, section 117 should apply to users of works, and not just their owners. That way, I don't become an infringer if I borrow a classmate's e-reader to look over the copy of the casebook she bought, or if you watch a movie on a friend's tablet.

Finally, section 117 could be amended—or a new section created in its model—to allow for the distribution of digital copyrighted works owned by consumers, provided that, at the end of the transaction, the seller retains no copies of the work and the buyer has only one. Such a provision would be entirely in keeping with the first sale doctrine, and would help preserve consumers' rights as an increasing number of works are sold primarily, if not solely, as digital downloads.¹⁵ That way, the rights of consumers and creators remain in balance, regardless of the form in which the works are being sold.

Conclusion:

The first sale doctrine isn't just a convenience created by the Supreme Court in 1908; it's a way to recognize how rights to physical property and intellectual property can be reconciled. As such, it is a fundamental part of the law that should not be undermined by one-sided, fine-print clickthroughs or relegated only to distributions involving the transfer of physical objects. As a foundational part of our law, the first sale doctrine should be clarified so that it might apply, with little need for later adjustment, well into the future.

¹³ Christina Mulligan, *A Numerus Clausus Rule for Intellectual Property* 80 Tennessee L. Rev. 235 (2012), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2017023.

¹⁴ *Id.* at 249.

¹⁵ Increasingly, games for mobile devices, personal computers, and gaming consoles, as well as large numbers of popular works of fiction, are being sold only as digital downloads, without any physical versions produced.