

COPYRIGHT OFFICE
LIBRARY OF CONGRESS
AND
NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION
DEPARTMENT OF COMMERCE

)
In Re Request for Public Comment)
In Preparation for Report to)
Congress Pursuant to Section 104)
of the Digital Millennium Copyright)
Act)
)

Docket No. 000522150-0150-01

**JOINT COMMENTS OF
NATIONAL ASSOCIATION OF RECORDING MERCHANTISERS
AND
VIDEO SOFTWARE DEALERS ASSOCIATION**

National Association of Recording Merchandisers, Inc. (“NARM”)¹ and Video Software Dealers Association, Inc. (“VSDA”),² hereby submit Joint Comments pursuant to the Notice of the Copyright Office and the National Telecommunications and Information Administration of the Department of Commerce (“NTIA”) in the above-referenced matter, initiated June 5, 2000, 65 Fed. Reg. 35673.

NARM and VSDA are the two trade associations representing the vast majority of retailers and distributors of home entertainment products to the American consumer. These home

¹ NARM is the principal trade association representing retailers and distributors of sound recordings in the United States. Its members are engaged in the distribution and retail sale of digital music in pre-recorded format and through digital distribution.

² VSDA is the principal trade association representing retailers and distributors of home video entertainment, including both rental and sell-through of motion pictures on cassettes (VHS tape) and Digital Versatile Disc (“DVD”), and video games.

entertainment products, which constitute “copies” or “phonorecords” under the Copyright Act, consist primarily of sound recordings, motion pictures, and video games. Although NARM and VSDA members typically do not own any copyrights in the copies and phonorecords that they sell, rent or otherwise distribute, they are by far the primary sources for delivery of copyrighted home entertainment to consumers. An increasing number of their members are also engaged in the digital transmission of copies of these works in digital form over the Internet through the authorization to manufacture (“download”) them onto tangible media either in stores or consumers’ homes.

NARM and VSDA members are in the unique position of supporting technological measures for some purposes but not others. On one hand, they share the copyright owners’ interest in combating piracy of copyrighted audiovisual works, sound recordings and video games with the most effective technological controls available. On the other hand, they share the consumer interest in enjoying all rights to ownership in lawfully made copies and phonorecords made possible by the exhaustion of the copyright owner’s distribution right under the first sale doctrine and Section 109 of the Copyright Act,³ and object to the use of technological measures used to circumvent those rights.

SUMMARY OF NARM AND VSDA POSITION

There are two major themes in the Joint Comments. First, NARM and VSDA challenge the false premise that the first sale doctrine does not or may not apply to “digital transmissions” or “works in digital form.” We take strong exception to the premise upon which the questions in the Request for Comment appear to be based, because the questions suggest that there may be some

³ All references to section numbers are to the Copyright Act of 1976, as amended, 17 U.S.C. § 101 *et. seq.*, unless otherwise specified.

doubt whether the first sale doctrine applies to digital works, or works distributed in digital form. Congress did not make that assumption, but inquired only into the effects the Digital Millennium Copyright Act (“DMCA”), electronic commerce and associated technology might have on the existing first sale doctrine. Section 109 applies to “copies or phonorecords,” which, by definition, include digital copies or phonorecords without regard to where or how they were created. In sum, the first sale doctrine already applies to digital media, and the appropriate inquiry is whether the DMCA or electronic commerce may have an effect on it, such as to weaken its salutary purposes, and not whether the first sale doctrine applies.

Second, even though the first sale doctrine applies to digital copies and phonorecords by law, NARM and VSDA are concerned by the trend of some major copyright owners to use technological measures to circumvent the operation of the first sale doctrine, thereby preventing the operation of the first sale doctrine despite the law. Although technological measures may lawfully be used to prevent copyright infringement and to effectuate the licensing of copyrights, they should not be used to permanently control the lawful distribution and use of copies or phonorecords once the legal right to do so has been exhausted.

We shall begin in Part I with a brief introduction of the Congressional mandate which gave rise to this Request for Comment and which, we believe, does not support an inference that the first sale doctrine might not apply to digital media. In Part II we will outline the foundations of copyright law applicable here, including the development of the first sale doctrine under common law and its codification in Section 109 of the Copyright Act, and demonstrate that Congress clearly intended for Section 109 to apply to digital media. In Part III we will discuss in greater detail, and from the practical experience of NARM and VSDA, how the first sale doctrine is being eroded by the

restrictive use of electronic commerce technology to circumvent its effect, how such erosion will negatively impact consumers, frustrate the objectives of copyright law, result in the de facto creation of a new exclusive and unrestricted general copyright “right of use,” restrict freedom of speech, and extend the copyright monopoly far beyond the lawful limits of the Copyright Act. Using this background, in Part IV we shall respond to the specific questions raised in the Request for Comment.

I. CONGRESSIONAL MANDATE FOR THIS INQUIRY

Section 104 of the Digital Millennium Copyright Act (“DMCA”), enacted on October 28, 1998, directs the Register of Copyrights and the Assistant Secretary of Communications and Information of the Department of Commerce to submit to Congress, by October 28, 2000, a report evaluating the effects of Title 1 of the DMCA (prohibiting the circumvention of access control technologies) on Section 109 of the Copyright Act (the codification of the “first sale doctrine”).

Specifically, the evaluation shall consider:

- (1) the effects of the amendments made by this title and the development of electronic commerce and associated technology on the operation of sections 109 [the first sale doctrine] and 117 of title 17, United States Code; and
- (2) the relationship between existing and emergent technology and the operation of sections 109 and 117 of title 17, United States Code.

The Copyright Office and NTIA have requested that interested parties comment on such effects so that their views can be considered in preparing the report to Congress. The most troubling aspect of the Request for Comment is that it appears to be premised on the notion that the first sale doctrine does not apply to digital downloads (or perhaps even to compact discs (“CDs”) or digital versatile discs (“DVDs”), even though Congress clearly believes that it does.⁴ Of the specific

⁴ In 1990, Congress excepted the rental of certain computer programs from the first sale doctrine rights in Section 109 while preserving the rest, including the right to continue renting video

questions asked in the Request for Comment with respect to the first sale doctrine, the most troubling is the last one, which reads (emphasis added):

(h) Does the absence of a digital first sale doctrine under present law have any measurable effect (positive or negative) on the marketplace for works in digital form?

The basis for this apparent presumption of the “absence of a digital first sale doctrine” is not at all evident, since nothing in current law suggests that the first sale doctrine ceases to apply where the copy or phonorecord of a work happens to be in digital form. In the following two sections we shall describe why such a position is contrary to case law and the constitutional underpinnings of copyright law, and why it is contrary to the plain language and legislative history of the Copyright Act. There can be no doubt that the first sale doctrine applies to all digital media regardless of the tangible medium in which it is embodied.

Perhaps what the Request for Comment intended by “absence of a digital first sale doctrine” was not to suggest that the DMCA has abrogated the first sale doctrine, but that the new technology has enabled copyright owners, contrary to the intent of the Copyright Act, to effectively nullify the legal effects of the first sale doctrine through a technological extension of control over distribution despite the fact that the distribution right in Section 106(3) has been exhausted by law. We shall also discuss the need for legal tools to prevent such technology-based copyright misuse.

II. LEGAL FOUNDATIONS OF COPYRIGHT LAW

At common law, authors enjoyed a limited copyright, which consisted of the “right of first publication.” *Jewelers’ Mercantile Agency v. Jewelers’ Weekly Pub. Co.*, 155 N.Y. 241, 254 (1898).

games. Computer Software Rental Amendments Act of 1990, Pub. L. 101-650, Title VIII, § 802, Dec. 1, 1990, 104 Stat. 5134. This demonstrates Congress’ belief that the first sale doctrine applies to digital media, since computer programs are, by their very nature, works in digital form.

That common law copyright disappeared upon publication, *id.*, and also upon securing statutory copyright protection. *See id.* at 247 (stating that “No proposition is better settled than that a statutory copyright operates to divest a party of the common-law right.”). Under the common law copyright, the author could only protect the copyright by non-publication or by relying upon contractual restraints in hopes of preventing the effects of publication for, once published, the copyright owner’s “property right in it is gone and every one may make use of it.” *Id.* Obviously, such result created a substantial disincentive to publish or disseminate, to the detriment of the public’s interest in science and the arts, and the Constitution authorizes Congress to remove it.

The Constitution provides that Congress’ authority to enact copyright laws is “[t]o promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” (U.S. CONST., art. I, cl. 8). The obvious intent was to overcome the common law copyright’s disincentives, and to encourage authors to create and to disseminate their works. To obtain the benefits of the new statutory protections, authors had to give up restraints upon the distribution of authorized copies of their works, for the objective was not to give the force of federal statutory law to the common law copyright, but to encourage authors to give up the common law’s privilege of restricting distribution in exchange for protection against unauthorized duplication or performance of those copies without the burden of having to create and enforce millions of separate contracts (known today as “end user license agreements” (“EULA”)). Nevertheless, the framers of the Constitution were careful to limit the scope of Congress’s authority to enact such copyright protections so that works would be widely disseminated — to grant the monopoly for only the “limited time” reasonably necessary to maintain an incentive for authors to create and publish.

The Constitution’s specific limitations on Congressional authority in this regard, and its ultimate purpose, have been repeatedly emphasized by the United States Supreme Court. In *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 526-27 (1994), the Supreme Court summarized some of these principles as follows:

We have often recognized the monopoly privileges that Congress has authorized, while “intended to motivate the creative activity of authors and inventors by the provision of a special reward,” are limited in nature and must ultimately serve the public good. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984). For example, in *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975), we discussed the policies underlying the 1909 Copyright Act as follows:

“The limited scope of the copyright holder’s statutory monopoly . . . reflects a balance of competing claims upon the public interest: Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts. The immediate effect of our copyright law is to secure a fair return for an ‘author’s’ creative labor. But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good.” (Footnotes omitted.)

We reiterated this theme in *Feist Publications, Inc. v. Rural Telephone Service Co.*, 499 U.S. 340, 349-50 (1991), where we said:

“The primary objective of copyright is not to reward the labor of authors, but ‘to promote the Progress of Science and useful Arts.’ To this end, copyright assures authors the right to their original expression, but encourages others to build freely upon the ideas and information conveyed by a work.” (Citations omitted.)

Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible.

Indeed, so strong is the public interest in preventing the overexertion of copyright claims that the Supreme Court concluded in *Fogerty* that “defendants who seek to advance a variety of meritorious copyright defenses should be encouraged to litigate them” because “a successful defense of a 8

copyright infringement action may further the policies of the Copyright Act every bit as much as a successful prosecution of an infringement claim by the holder of a copyright.” *Id.* at 527.

Thus, as we explained more fully below, there can be no doubt that the first sale doctrine and its codification in Section 109 further the policies of the Copyright Act. As Congress intended, the first sale doctrine continues to apply to works in digital form – and any other form now known or later developed – to the same extent that such works are protected by copyright.

A. The First Sale Doctrine and Section 109 of the Copyright Act

The Copyright Act, as amended, furthers the Constitution’s purposes by giving copyright owners only a limited monopoly for a limited time. Significantly, the Copyright Act specifically extinguishes the copyright owner’s right to control distribution of a copy or phonorecord lawfully made under the Act once the copyright owner has transferred title to another (the so-called “first sale” doctrine).⁵ Section 109. Thus, as discussed more fully in Part III, if an access control technology were used to prevent the exhaustion, by law, of the distribution right (such as by requiring library patrons to register, pay a fee, or divulge personal information before being granted access to a copy or phonorecord borrowed from the library, or by requiring a similar procedure to enable a friend to access a copy or phonorecord transferred by gift) then the access control technology would become a tool for circumventing the rule of law rather than protecting any right granted by law.

The existing first sale doctrine as codified in Section 109 applies to “copies or phonorecords,” which, by definition, include digital copies or phonorecords without regard to where

⁵ In the case of sound recordings and computer programs, the exhaustion of the distribution right is not total, as it permits the copyright owner to control whether the owner may rent a copy or phonorecord of a sound recording or of a certain class of computer programs. Section 109(b).

or how they were made. It complies with full force and effect to all media – including digital media – now known or later developed.

1. Common Law Basis of Judicially Created First Sale Doctrine

This nation has a long history of opposition to restraints on alienation of property. Prior to the enactment of the Copyright Act of 1909, the courts had already concluded that the right to vend – the distribution right – was exhausted once exercised. Even then, the focus was not on whether a “sale” had been made, but whether someone other than the copyright owner had been vested with ownership, for one of “the ordinary incidents of ownership in personal property” is “the right of alienation” of that property, which is “attached to” the ownership. *Harrison v. Maynard*, 61 F. 689, 691 (2d Cir. 1894).

2. Codification of First Sale Doctrine

Congress first codified the first sale doctrine in Section 27 of the Copyright Act of 1909. At the time, the House Committee on Patents stated that this codification was “not intended to change in any way the existing law, but simply to recognize the distinction, long established, between the material object and the right to produce copies thereof.” H.R. REP. NO. 2222, 60th Cong., 2d Sess. (1909).⁶ The Report went on to note: “Your committee feel [sic] that it would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the first sale.” *Id.* (emphasis added).

With the Copyright Act of 1976, Congress continued this line of reasoning, and went further, making clear that it intended to prevent some of the questions being raised in this Request for Comment from ever becoming an issue. Early in the last century, the Supreme Court had wrestled

⁶ Quoted in *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 852 (1963).

with the question of whether musical compositions copied onto the new technology medium of the time – player piano rolls – constituted copies of the sheet music that contained the same composition. Concluding that a “copy” had to physically look like the original, the Supreme Court concluded that player piano rolls were not copies of the sheet music. *See White-Smith Music Publishing Co. v. Apollo Co.*, 209 U.S. 1 (1908). With the Copyright Act of 1976, at a time when sound recordings on audio cassette and 8-track tape were already in widespread circulation, Congress was unequivocal in its determination that the law need not specify each and every tangible medium of expression, adding that such medium may be any medium “now known or later developed,” and overturning *White-Smith*. The House Judiciary Committee explanation at the time was as follows:

As a basic condition of copyright protection, the bill perpetuates the existing requirement that a work be fixed in a “tangible medium of expression,” and adds that this medium may be one “now known or later developed,” and that the fixation is sufficient if the work “can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.” This broad language is intended to avoid the artificial and largely unjustifiable distinctions, derived from cases such as *White-Smith Publishing Co. v. Apollo Co.*, 209 U.S. 1 (1908), under which statutory copyrightability in certain cases has been made to depend upon the form or medium in which the work is fixed. Under the bill it makes no difference what the form, manner, or medium of fixation may be - whether it is in words, numbers, notes, sounds, pictures, or any other graphic or symbolic indicia, whether embodied in a physical object in written, printed, photographic, sculptural, punched, magnetic, or any other stable form, and whether it is capable of perception directly or by means of any machine or device “now known or later developed.”

H.R. REP. NO. 1476, 94th Cong., 2d Sess., at 52 (1976). What Congress wanted to do in 1976 was to make certain that the *White-Smith* mistake would not be repeated.

3. *The Digital Millennium Copyright Act (“DMCA”)*

To comply with the demands of Article 18 of the WIPO Performances and Phonograms Treaty, Congress enacted certain provisions of the DMCA to prohibit the circumvention of “a

technological measure that effectively controls access to a work protected under [the Copyright Act].” Section 1201(a)(1)(A).⁷ The DMCA did not, however, alter Section 109 or the first sale doctrine in any way. Rather, in Section 104 of the DMCA, Congress simply expressed its concern over the effects that digital technology and the DMCA might have on the operation of Section 109 as a practical matter – not as a legal one.

4. No “Sale” Is Required.

Moreover, the Copyright Act also makes clear that the first sale doctrine need not involve sale of the tangible medium. Rather, as indicated in Section 109 itself, the pivotal question is whether the person asserting the first sale doctrine right is the “owner” of a lawfully “made” copy or phonorecord. There is no requirement that the tangible medium of expression has been sold by the copyright owner, but only that the owner of the lawfully made copy or phonorecord be the lawful owner. Thus, a copy discarded by the copyright owner, or acquired by gift or breach of contract by the seller, entitled the owner to the full rights of the first sale doctrine. *See* Part IV(e)(B) below, and nn. 18-21.)

Thus, the “first sale” doctrine is a misnomer, owing its inaccuracy to its common law heritage, having derived from our longstanding public policy disfavoring restrictions on the alienability of property after it has been sold. As currently codified with respect to copyright in Section 109, the first sale doctrine is not dependent upon a sale, but only upon “ownership” of a “copy or phonorecord” that was lawfully made under the Copyright Act.

Notwithstanding the provisions of [the distribution right in] section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person

⁷ It also prohibited the falsification, alteration or removal of copyright management information. Section 1202.

authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. . . .”

Section 109(a).

5. *Copies may be lawfully made at a retail store or home.*

The first sale doctrine also applies to exhaust the copyright owner’s distribution right when a copy is lawfully made by anyone, including a retailer or an individual. Copies can be mass produced at a factory or singularly by the consumer. The owner of a lawfully made copy or phonorecord is the owner regardless whether the copy was purchased or, after the purchase of a blank medium, lawfully “made” by exercising a license to make a copy.

[The law] does not forbid an individual from selling, or otherwise transferring, a copy of a copyrighted work which was lawfully obtained or lawfully manufactured by that individual. If the copyright owner has given up title to a copy of a work, the owner no longer has exclusive rights with respect to that copy.

United States v. Sachs, 801 F.2d 839, 842 (6th Cir. 1986) (emphasis added). *See also United States v. Cohen*, 946 F.2d 430, 434 (6th Cir. 1991) (“This [first sale] doctrine recognizes that copyright law does not forbid an individual from renting or selling a copy of a copyrighted work which was lawfully obtained or lawfully manufactured by that individual”); M. NIMMER AND D. NIMMER, *NIMMER on Copyright* § 8.12[B][3][c]. Clearly, the owner of a copy made by an authorized digital download is vested with full first sale doctrine rights.

The Copyright Act is consistent with this judicial interpretation with respect to its treatment of the term “fixed” also. The definition of “fixed” includes the following explanation: “A work consisting of sounds, images, or both, that are being transmitted, is ‘fixed’ for purposes of this title if a fixation of the work is being made simultaneously with its transmission.” Section 101. The House Judiciary Committee explained that this sentence “makes clear that, in the case of ‘a work

consisting of sounds, images, or both, that are being transmitted,’ the work is regarded as ‘fixed’ if a fixation is being made at the same time as the transmission.” H.R. REP. NO. 1476, 94th Cong., 2d Sess. at 53 (1976). *Cf. id.*, discussing Section 115 (compulsory license for phonorecords), explaining that “[t]he term ‘made’ is intended to be broader than ‘manufactured,’ and to include within its scope every possible manufacturing or other process capable of reproducing a sound recording in phonorecords.” With such broad language, there can be no doubt that the compulsory license would apply to phonorecords “made” through digital downloads against the wishes of the copyright owner. It, therefore, stands to reason that the same rule would certainly apply in the case of phonorecords made by digital downloads authorized by the copyright owner.

Conceptually, and given the current state of digital technology, there is no distinction under copyright law between a CD made by the copyright owner and then sold by the copyright owner, a CD made by the copyright owner’s agent (perhaps by digitally transmitting the sound recording to the manufacturing plant) and then sold by or with the authority of the copyright owner, a CD made by a record club under license from the copyright owner and then sold by the record club, a CD made in a retail store on demand from the consumer (again, with digitally distributed content) and then sold by the retailer, or a CD made on an individual’s home computer’s CD-RW drive (also using the same digitally distributed content). Assuming, of course, that in each case the copyright owner had authorized the making of the copy, the resulting CD (phonorecord) in each case would be “lawfully made” under the Copyright Act, and entitle the owner of the CD to all rights associated with Section 109.⁸

⁸ One record company actually authorizes individuals to make three copies: “You may install [*i.e.* “copy”] the Digital Recording on a hard disk for the purposes of (i) playback on the same PC or (ii) recording to a Compact Disc no more than two (2) times.”

To take a forceful example, a person who owns a computer hard drive with hundreds of sound recordings or movies “lawfully made” through digital downloads is free to sell that hard drive without the consent of the copyright owner. All the more so, a person who lawfully makes a CD recording (or, in the future, a DVD recording) at a retail location or at home through a digital download is authorized, under Section 109, to sell it to the highest bidder, loan it, trade it or give it away, and the copyright owner is not authorized – under the Copyright Act – to prevent it. NARM and VSDA members would, also, be free to rent them for profit, just as is the practice today with audiovisual works recorded on videocassettes and DVDs.⁹

Indeed, not only does the first sale doctrine give the lawful owner of a lawfully made copy the “right” to further distribution without interference by the copyright owner, Section 109 imposes a prohibition upon the copyright owner against such interference. *Brode v. Tax Mgmt., Inc.*, No. 88 C 10698, 1990 U.S. Dist. LEXIS 998, at *12 (E.D. Ill. Jan. 31, 1990) (the sellers of a lawfully made copy “had no duty [at the request of the copyright owner] to require the subscribers to pull the portfolios from their shelves and indeed were prohibited from such action by section 109(a) and (b)”).

III. COPYRIGHTS ARE LIMITED – NO EXCLUSIVE “USE” RIGHT

In this part, we will draw attention to four areas of concern where the copyright monopoly, coupled with modern technology enable copyright owners to control the use of copies of their works beyond the scope of their exclusive rights under Section 106; the use of licensing schemes and

⁹ NARM and VSDA members rent motion pictures on videocassette and DVD, and also rent video games for dedicated entertainment systems. Our members do not rent sound recordings, however, because Congress realized that there was virtually no legitimate rental market for sound recordings once cassette tape recorders were popularized. With NARM’s support, Congress prohibited the rental of sound recordings without consent of the owner.

technological measures to circumvent the operation of the first sale doctrine; the use of technological measures to restrain competition at the retail level of distribution; and the use of technological measures enforced by the courts to restrain First Amendment rights.

A. Technological Control Over Uses Beyond Reach of Section 106

The rights protected by copyright are limited to those six rights specified in Section 106. Although the only right directly implicated by Section 109 is the distribution right, it should be noted, at the outset, that there is no general copyright in the “use” of a lawfully made copy or phonorecord as against its lawful owner. Rather, once Section 109 applies to exhaust the distribution right, the only “use” rights granted by copyright that survive are those specific uses set forth in Section 106 – depending upon the type of work, the right to reproduce it, prepare derivative works from it, perform it publicly (and, in the case of sound recordings, by means of a digital audio transmission), and display it.¹⁰

Congress “has never accorded the copyright owner complete control over all possible uses of his work,” but has instead limited the holder to the enumerated statutory rights in Section 106. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 432 (1984). The purpose of Congress in creating specific and limited rights under Section 106 of the Copyright Act was in furtherance of the Constitution’s objectives. To use that monopoly power, however limited, for the purpose of gaining control over distribution of a work after the distribution right has been terminated by law is an abuse of that copyright. “A copyright owner may not enforce its copyright to . . . use

¹⁰ In addition, the author of visual art is granted certain “moral rights” not implicated here by virtue of Section 106A.

it in any manner violative of the public policy embodied in the grant of a copyright.” *Tricom, Inc. v. Electronic Data Systems Corp.*, 902 F. Supp. 741 (E.D. Mich. 1995) (citations omitted).

Even the new World Intellectual Property Organization (“WIPO”) copyright treaties, which the DMCA intended to implement, lend no support for such a use right. The United States is a signatory of two WIPO (World Intellectual Property Organization) treaties that have a direct bearing on the issue of how copyright misuse should limit any rule prohibiting circumvention of access control technologies. First, the WIPO Performances and Phonograms Treaty of December 20, 1996, Article 18, requires parties to provide:

adequate legal protection and effective legal remedies against the circumvention of effective technological measures that are used by performers or producers of phonograms in connection with the exercise of their rights under this Treaty and that restrict acts, in respect of their performances or phonograms, which are not authorized by the performers or the producers of phonograms concerned or permitted by law.

(Emphasis added.) It is noteworthy that Article 18 only requires adequate legal protection where the technological measures are used “in connection with the exercise of their rights under this Treaty” and used to restrict acts not authorized by the performers or producers of phonograms “or permitted by law.” That is, Article 18 does not require that the United States provide legal protection against circumvention of technological measures used to restrict acts permitted by law.

Second, the WIPO Copyright Treaty of December 20, 1996, Article 12, creates certain obligations concerning rights management information (that is, “information which identifies the work, the author of the work, the owner of any right in the work, or information about the terms and conditions of use of the work, and any numbers or codes that represent such information, when any of these items of information is attached to a copy of a work or appears in connection with the

communication of a work to the public” (emphasis added)). There certainly can be no doubt that the current access control technologies that incorporate “digital rights management” systems containing “rules” governing use of a work constitute a form of “rights management information.” However, the agreed statement of the Diplomatic Conference that adopted the treaty states, with reference to Article 12, that “Contracting Parties will not rely on this Article [12] to devise or implement rights management systems that would have the effect of imposing formalities which are not permitted under the Berne Convention or this Treaty, prohibiting the free movement of goods or impeding the enjoyment of rights under this Treaty.” Thus, to the degree that the U.S. Copyright Act is interpreted as restricting a copy or phonorecord owner’s right of alienation of property in the name of technologically requiring adherence to private usage rules – rules imposed in derogation of the first sale doctrine – such interpretation would run afoul of Article 12. Moreover, such interpretation would upset the careful balance of competing social policies which underlay the Copyright Act.

Civil copyright law is a compromise between competing social policies – one favoring the widest possible dissemination of new ideas and new forms of expression, and the other giving writers and artists enough of a monopoly over their works to ensure their receipt of fair material rewards for their efforts. The first policy predominates, which means that the system of rewards is to be no more extensive than is necessary in the long run to elicit a socially optimal amount of creative activity.

United States v. Bily, 406 F. Supp. 726, 730 (E.D. Pa. 1975) (footnote omitted). To preserve that balance, Congress made certain that the creation of copyright monopolies would not vest absolute control in the copyright owner. Section 109 is one of the most important of such limitations.¹¹

¹¹ “One of the most important limitations on copyright owners’ exclusive rights is embodied in section 109 of title 17, United States Code.” H.R. REP. NO. 735, 101st Cong., 2d Sess. (1990) (Statement of Legislative History, Title I, pagination unavailable).

B. Use of Licenses and Technological Controls To Circumvent The First Sale Doctrine

Because Congress saw fit to exhaust the copyright owner's right to restrict the distribution of a lawfully made copy or phonorecord once it is owned by another, any use of access control technology to circumvent the will of Congress and effectively "revive" a right that the law extinguished must be considered copyright misuse. In the same vein, if a technological control measure effectively renders a sound recording or motion picture unplayable if the owner of the copy or phonorecord transfers title to another, such measure frustrates the Congressional will and technologically prohibits a transfer that the copyright owner has no lawful right to prohibit.

The objective of copyright law is to promote the progress of science and useful arts, and any benefit to be derived by copyright owners is for that purpose. "The sole interest of the United States and the primary object of conferring the [copyright] monopoly lie in the general benefits derived by the public from the labors of authors." *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932) (quoted with approval in *Paramount Pictures*, 334 U.S. 131, 158 (1948)). The copyright reward is intended to induce authors to release to the public the products of their creative genius. *Paramount Pictures*, 334 U.S. at 158.

It is not uncommon for intellectual property, including copyrights, to be licensed. Care should be taken, however, to distinguish between the lawful licensing of a copyright, on the one hand, and the purported licensing of "rights" not recognized by copyright, on the other, particularly where the latter are tied to the former or intended to circumvent the first sale doctrine. For example, a copyright owner may lawfully license someone else to make copies or phonorecords of a copyrighted work, because the copyright owner has the exclusive right to copy. The copyright owner

may also set the sales price for copies or phonorecords it owns. But the right to set the sales price is one belonging to the owner of the copy or phonorecord, and not to the copyright owner as such. That is, the right to set the price is not a copyright and, therefore, the copyright owner has no right under the Copyright Act to enforce sales price terms in a license to make copies. “The Supreme Court held that any transfer of title is a first sale, and no copyright remedy is permissible to enforce the breach of contract involved.” *United States v. Atherton*, 561 F.2d 747, 751 (9th Cir. 1977) (citing *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), (holding that copyright law could not be used to enjoin the sale of lawful copies below the cost set by the copyright owner).

Some copyright owners have become even more creative, and have purported to license the making and use of a copy or phonorecord under terms of an “end user license agreement” (“EULA”) or similar artifice intended to control the use of a copy or phonorecord. For example, the “click-wrap” agreement offered by one record company in connection with a license to make several lawful phonorecords from one single digital download purports to control their use as follows:

By purchasing and downloading this digital recording, you agree that (a) the digital recording is for your personal non-commercial use, (b) you will comply with and will not circumvent the Usage Rules or any technology designed to enforce the Usage Rules, and (c) you will not tamper with or modify the digital recording.

Usage Rules: You may install the Digital Recording on a hard disk for the purposes of (i) playback on the same PC or (ii) recording to a Compact Disc no more than two (2) times; and (iii) exporting to a trusted (secure) or insecure portable player device no more than three (3) times. Any use of the digital recording other than as permitted above is a violation of this agreement and the United States Copyright Laws and is prohibited.

The example above combines legitimate terms that pertain to the licensing of copyrights (e.g., copying the sound recording onto a hard disk and onto two CDs – copies to which the first sale doctrine would apply) as well as restrictions upon the Section 109 rights (e.g. limiting the use of the

hard disk copy to playback “on the same PC,” thereby purporting to prohibit the sale of the hard drive separate from the PC, and prohibiting any use “other than as permitted above,” which, if taken literally, would prohibit any use of the two lawfully made CDs, other than making them). Of course, the threat that failure to abide by these arbitrary usage terms is “a violation of . . . the United States Copyright Laws and is prohibited” is completely false as discussed above.

Another record company combines “free” computer software programs with CDs containing sound recordings. It then attempts to control the use of the entire CD through a license agreement pertaining to the “free” software, notwithstanding the fact that the retailer and consumer have each purchased it and are (or were) the lawful owners. The free software license agreement included with “The Writing’s On the Wall,” a CD album by Destiny’s Child, is only viewable when the CD is used in a computer, and it reads, in part, as follows:

SONY MUSIC ENTERTAINMENT INC. LICENSE AGREEMENT

This legal agreement between you as end user and Sony Music Entertainment Inc. concerns this product, hereafter referred to as Software. By using and installing this disc, you agree to be bound by the terms of this agreement. If you do not agree with this licensing agreement, please return the CD in its original packaging with register receipt within 7 days from time of purchase to: Sony Music Entertainment Inc., Radio City Station, P.O. Box 844, New York, NY 10101-0844, for a full refund.

1. LICENSE; COPYRIGHT; RESTRICTIONS. You may install and use your copy of the Software on a single computer. You may not network the Software or otherwise use or install it on more than one computer or terminal at the same time. The Software (including any images, text, photographs, animations, video, audio, and music) is owned by Sony Music Entertainment Inc. or its suppliers and is protected by United States copyright laws and its international treaty provisions. You may not rent, distribute, transfer or lease the Software. You may not reverse engineer, disassemble, decompile or translate the Software.

Under Section 109, the lawful owner of the Destiny's Child CD is entitled to sell or give away the CD without Sony's consent. Under the terms of the license agreement, the owner is not even entitled to keep it if it does not agree to be bound by the terms of the free software license.

Such efforts to control the use of lawfully made phonorecords by the lawful owner may seem rather novel or "cutting edge" in the sound recording business, but Congress observed this failed tactic over twenty years ago when it was tried by the computer software industry in attempting to prevent the rental of computer software. In connection with the sale of digital computer programs, one copyright owner used "box top" licenses stating that the consumer was not purchasing the software itself, but only a license to use the program. *Step-Saver Data Sys., Inc. v. Wyse Tech.*, 939 F.2d 91, 96 (3d Cir. 1991). The court explained the practice in light of the Computer Software Rental Amendments Act of 1990, Pub. L. 101-650, 104 Stat. 5134, tit. I (amending Section 109(b) to except the rental of a certain class of computer software from the first sale doctrine):

When these form licenses were first developed for software, it was, in large part, to avoid the federal copyright law first sale doctrine. Under the first sale doctrine, once the copyright holder has sold a copy of the copyrighted work, the owner of the copy could "sell or otherwise dispose of the possession of that copy" without the copyright holder's consent. . . . Because of the ease of copying software, software producers were justifiably concerned that companies would spring up that would purchase copies of various programs and then lease those to consumers. . . . Consumers, instead of purchasing their own copy of the program, would simply rent a copy of the program, and duplicate it. This copying by the individual consumers would presumably infringe the copyright, but usually it would be far too expensive for the copyright holder to identify and sue each individual copier. Thus, software producers wanted to sue the companies that were renting the copies of the program to individual consumers, rather than the individual consumers. The first sale doctrine, though, stood as a substantial barrier to successful suit against these software rental companies, even under a theory of contributory infringement. By characterizing the original transaction between the software producer and the software rental company as a license, rather than a sale, and by making the license personal and non-transferable, software producers hoped to avoid the reach of the first sale doctrine and to establish a basis in state contract law for suing the software rental companies

directly. Questions remained, however, as to whether the use of state contract law to avoid the first sale doctrine would be preempted either by the federal copyright statute (statutory preemption) or by the exclusive constitutional grant of authority over copyright issues to the federal government (constitutional preemption). Congress recognized the problem, and, in 1990, amended the first sale doctrine as it applies to computer programs and phonorecords.

Id., n.7 (emphasis added, citations omitted). In the case of computer software rentals, the case was clear that the only reason for renting the computer programs was to make copies. Even then, the only real solution was a legislative one and, even then, the first sale doctrine was preserved for digital computer programs in its entirety, save for the owner's right to rent a limited class of computer programs (excluding, for example, video game cartridges) without the copyright owner's consent. Section 109(b). *See also, Sebastian Intern. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1075 (9th Cir. 1995) (rejecting use of a collective trademark to control the downstream distribution of products exclusively through authorized dealers). "We reject Sebastian's attempt to circumvent the 'first sale' rule." *Id.* As discussed above, *supra* at Part II(A)(5), even where the copies or phonorecords are not sold by the copyright owner but, instead, are created by the retailer or consumer licensed to make the copy, the first sale doctrine applies. Any other outcome would leave the retailer or consumer in the unenviable position of having received a license to make a copy but being unable to sell or otherwise dispose of it. "This would make little sense." *Bourne v. Walt Disney Co.*, 68 F.3d 621, 632 n.4 (2d Cir. 1995) (referring to a similar situation).

C. Use Of Technological Measures To Restrain Competition At the Retail Level Of Competition

For the first time in history, copyright owners have the power to control mass distribution of their works (at least those in digital form) from the point of manufacture all the way to the end consumer and beyond. They are now able to distribute copies or phonorecords to millions of people

in a matter of a few minutes, simultaneously distributing at the wholesale and the retail level. Moreover, they can use technology to enforce absolute uniformity in the terms and conditions of sale available to all retail consumers, ignoring or supplanting efforts by retailers to offer more competitive pricing, policies and other competitive terms and conditions of sale, such as in the protection of consumer privacy and anonymity.

Ironically, the copyright owner's inability to effectuate such a total system of control over copies of copyrighted works is what prompted lawmakers to establish copyright protections in the first instance, harking back to the Statute of Anne in 1710. Thus, the owners of copyrights in digital works today are able to exercise total control over who can own or even access a copy or phonorecord, when, where, at what price, for how long, and whether the owner will have any meaningful right of alienation of property, and yet still claim the protections of the very same federal civil and criminal copyright law created precisely because they lacked any meaningful controls over their works.

Several authorities have already raised concerns over the current use of so-called “digital rights management” to enable copyright owners to, in effect, have their cake and eat it too. *See, e.g.,* Lawrence Lessig, *Code and Other Laws of Cyberspace*, 122-41 (1999). Of more immediate concern to the members of NARM and VSDA is the rapid erosion of the ability of retailers and distributors to competitively distinguish themselves in any meaningful way. For example, business models have already been unveiled which would force every retailer wishing to offer digital distribution to their customers to have to offer the copy or phonorecord at exactly the same price, under exactly the same terms, requiring exactly the same personal information, and subject to exactly the same privacy

policies or lack thereof. Under this model, retailers serve merely as agents to funnel their customers to the copyright owners, who then establish the uniform prices, policies and terms.

NARM and VSDA members generally do not fear direct retail competition from their suppliers, because they generally feel they are capable marketers and retailers, plus they have the added advantage of being able to aggregate copies and phonorecords from all of the major entertainment companies and myriad of independents at a single shopping location. However, when the copyright owner can remove every significant competitive distinction offered by competing retailers, the benefits of competition for the consumer are lost. Indeed, some copyright owners are refusing to allow retailers to retain a significant advantage of the aggregator – the ability to sell downloads from all sources using a single electronic “shopping cart.” These copyright owners would prefer that the terms, conditions, look and feel, and even customer service that any retailer can offer in a distinctive way will never be available for all products offered by that retailer, for the copyright owner will demand adherence to its own special terms regardless of the wishes of retailers and their customers.

These concerns within the retail community are very real. They are based upon current practices and trends. Similar concerns occupied the mind of Congress in the pre-digital era upon consideration of the Copyright Act of 1909:

In enacting a copyright law Congress must consider, as has been already stated, two questions: First, how much will the legislation stimulate the producer and so benefit the public; and second, how much will the monopoly granted be detrimental to the public. The granting of such exclusive rights, under the proper terms and conditions, confers a benefit upon the public that outweighs the evils of the temporary monopoly.

It was at first thought by the committee that the copyright proprietors of musical compositions should be given the exclusive right to do what they pleased

with the rights it was proposed to give them to control and dispose of all rights of mechanical reproduction, but the hearings disclosed that the probable effect of this would be the establishment of a mechanical-music trust. It became evident that there would be serious danger that if the grant of right was made too broad, the progress of science and useful arts would not be promoted, but rather hindered, and that powerful and dangerous monopolies might be fostered which would be prejudicial to the public interests. This danger lies in the possibility that some one company might secure, by purchase or otherwise, a large number of copyrights of the most popular music, and by controlling these copyrights monopolize the business of manufacturing the selling music producing machines, otherwise free to the world.

The main object to be desired in expanding copyright protection accorded to music has been to give to the composer an adequate return for the value of his composition, and it has been a serious and difficult task to combine the protection of the composer with the protection of the public, and to so frame an act that it would accomplish the double purpose of securing to the composer an adequate return for all use make of his composition and at the same time prevent the formation of oppressive monopolies, which might be founded upon the very rights granted to the composer for the purpose of protecting his interests.

H.R. REP. NO. 2222, 60th Cong., 2d Sess. At 7 (1909). Over fifty years later, the Register of Copyrights was not yet faced with the competitive issues raised by absolute control over digital distribution, but nevertheless recognized similar dangers.

Copyright has sometimes been said to be a monopoly. This is true in the sense that the copyright owner is given exclusive control over the market for his work. And if his control were unlimited, it could become an undue restraint on the dissemination of the work.

On the other hand, any one work will ordinarily be competing in the market with many others. And copyright, by preventing mere duplication, tends to encourage the independent creation of competitive works. The real danger of monopoly might arise when many works of the same kind are pooled and controlled together.

Register's Report on the General Revision of the U.S. Copyright Law, at 5 (1961).

Today, in both the music and the motion picture industries, we are faced with a market in which many works of the same kind are pooled and controlled together by a few companies that

dominate the industry. The first sale doctrine has been an invaluable tool in ensuring that consumers would continue to enjoy many options for purchasing, renting or otherwise enjoying copies and phonorecords on competitive terms, at least at the retail level. The use of technology to effectively lock out all options save those endorsed by a few powerful copyright owners demands legislative, regulatory and judicial attention to protect retail competition and consumer choice.

D. Principles Affecting Operation Of The First Sale Doctrine With Respect To Works Protected By the First Amendment

Although most copyrighted works may also be entitled to First Amendment protection in their enjoyment, the First Amendment right attaches without regard to whether the work is copyrightable, and protects copies and phonorecords regardless of whether the first sale doctrine applies. VSDA and NARM have long defended the rights of their respective members to sell, rent or display motion pictures, sound recordings and video games threatened by government censorship, and need not own any copyright in order to have standing to do so.

The First Amendment prohibits the government from restricting the distribution of copies or phonorecords, and practically mandates recognition of the first sale doctrine when the matter at issue is expressive material. A retailer's right to sell a CD is protected to the same extent as the artist's right to record it. But are private actors free to impose technological or licensing restraints on distribution without regard to the First Amendment? We believe that the answer is "no". While they may be free to impose the restriction by agreement, such agreement would be unenforceable. Once the first sale doctrine attaches to exhaust the distribution right, the owner of the copyright should not be permitted to obtain the aid of the government in abridging the freedom to disseminate lawfully made copies or phonorecords of constitutionally protected works.

At least one court seems to agree, noting that a copyright owner's effort to do so implicates First Amendment rights. *See United States v. Bily*, 406 F. Supp. at 735, n.15 (observing that First Amendment values were implicated in a criminal copyright infringement action involving the first sale doctrine).

Thus, where the copyrighted work has a significant expressive component, which is the case for books, music, motion pictures and even video games, the exhaustion of the distribution right is required by an even more fundamental principle – the principle that federal copyright law should not come to the aid of one who seeks to abridge the freedom of speech of another. The First Amendment demands that any person who is the lawful owner of a lawfully made copy be free to further distribute that work without restriction. To be sure, private parties may privately contract to limit one party's ability to speak, but neither Congress nor the courts should come to the aid of a copyright owner who seeks to impose restrictions upon the dissemination or use of a copy or phonorecord of a constitutionally protected work where such restriction would exceed the constitutionally - based, congressionally granted copyright.¹²

In sum, the Copyright Act grants no "use" right. The copyright owner has no right to tell the owner of a lawfully made copy of a book how many times it may be read, whether the corners of the pages may be turned down, whether passages may be underlined, or whether marginal notes may be

¹² *See, e.g., Shelley v. Kraemer*, 334 U.S. 1 (1948) (holding that the action of state courts and judicial officers in enforcing a private agreement constituted "state action" for purposes of the Fourteenth Amendment and that, therefore, courts in equity would not enforce a private agreement to accomplish objectives prohibited by the Constitution even if the private agreement itself was not unlawful); *Barrows v. Jackson*, 346 U.S. 249 (1953) (refusing to allow action for damages for breach of lawful private agreement which would violate constitutional rights if the same terms were imposed by the government). *See, also*, Mark A. Lemley and Eugene Volokh, Freedom of Speech And Injunctions in Intellectual Property Cases, 48 Duke L.J. 147 (November 1998) (arguing for the application of First Amendment prior restraint principles in copyright actions).

made. By the same token, the copyright owner has no right under copyright to dictate any limit on how many times or for how many days a song may be listened to or a movie watched, or to limit the number of people to whom it may be lent or to whom it may be given. Because the use of such expressive materials is protected by the First Amendment, because the Copyright Act provides no such right over use, and because the Constitution limits the purposes for which Congress may provide copyright protection – which purposes would not be served by any general right over use by owners of copies or phonorecords – Congress should take care that measures ostensibly intended to protect against unauthorized copying not be used as a means of gaining, through technology, a de facto right to control the use of a work. Where private parties seek to expand the scope of their copyrights to control how owners of copies or phonorecords “use” their works, such efforts must fail under the First Amendment constraint against laws abridging the freedom of speech.

IV. RESPONSES TO SPECIFIC QUESTIONS

(a) What effect, if any, has the enactment of prohibitions on circumvention of technological protection measures had on the operation of the first sale doctrine?

In the response to question (c), below, we explain some of the direct effects new technology has had on the operation of first sale doctrine. The effect of the prohibition on circumvention of technological protection measures is felt where the technological protection measure does more than just protect the copyright from infringement, but, in addition, furthers objectives unrelated to copyrights. Because those technological protection measures cannot be circumvented so as to limit their effect to only the lawful objectives, the effect is to strengthen the hand of the copyright owner at the expense of the owners of the copies and phonorecords. For example, a lawful objective of a copyright owner offering a digital download may be to insure that no matter through what channels

the license (or sublicense) to make a copy is conveyed, the licensee will have to make some proof of payment before access to the work is granted, and even then, access to make unauthorized copies might be denied. If, however, those lawful objectives are achieved using means that require the licensee to disclose his or her identity to third parties, or to technologically bundle the desired product with other unwanted products, the owner of the lawfully made copy is unable to lawfully circumvent the technological protection measures for the sole purpose of protecting the owner's (or the owner's customers') privacy, or to unbundle the unwanted product and discard it.

For example, in *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948), the Supreme Court explained the limitations on copyright power in the context of “block booking” – “the practice of licensing, or offering for license, one feature or group of features on condition that the exhibitor will also license another feature or group of features released by the distributors during a given period.” 334 U.S. at 156. The Supreme Court approved of the lower court's restriction against such practice as well as the lower court's reasoning, which was based not only on the illegality of the restraint itself, but also for reasons based squarely upon the Constitution and the Copyright Act.

The District Court held it illegal for that reason and for the reason that it “adds to the monopoly of a single copyrighted picture that of another copyrighted picture which must be taken and exhibited in order to secure the first.” That enlargement of the monopoly of the copyright was condemned below in reliance on the principle which forbids the owner of a patent to condition its use on the purchase or use of patented or unpatented materials.

Id. at 157 (quoting the lower court, citations omitted). The Supreme Court noted that, like patent law, the exclusive right granted under the Copyright Act does not include any privilege to “add to the monopoly of the copyright in violation of the principle of the patent cases involving tying clauses.” *Id.* at 158. Here, Congress should be mindful to the limitation on using the copyright

monopoly as leverage to enlarge the copyright owner's limited monopoly through use of technology which cannot lawfully be circumvented by the victim.

(b) What effect, if any, has the enactment of prohibitions on falsification, alteration or removal of copyright management information had on the operation of the first sale doctrine?

Neither VSDA nor NARM are aware of any effect that the enactment of prohibitions on falsification, alteration or removal of copyright management information has had on the operation of the first sale doctrine. We note, however, that some state laws require the disclosure of the manufacturer of a copy or phonorecord (or "transferor" of the content).¹³ Where a person lawfully manufactures a copy or phonorecord and wishes to exercise the Section 109 rights associated with ownership, the inclusion of that person's own name and address on the copy or phonorecord should not be construed to be a violation of this provision.

(c) What effect, if any, has the development of electronic commerce and associated technology had on the operation of the first sale doctrine?

Technology can now be used to circumvent constitutional and legislative limitations on the distribution right to the point of constituting copyright misuse and/or violation of antitrust laws. Already, NARM has been forced to file suit against a record company which is using digital technology to force retailers to include promotions of and hyperlinks to the record company's own competing Internet-based retail site with each CD sold. Such links are not included in CDs distributed in markets where the record company does not own the distribution right, and clearly

¹³ See, e.g., Mass. Ann. Laws ch. 266, § 143C ("Whoever for commercial advantage or private financial gain knowingly manufactures, rents, sells, transports, or causes to be manufactured, rented, sold or transported, or possesses for purposes of sale, rental or transport, any recorded device the outside packaging of which does not clearly and conspicuously bear the true name and address of the transferor of the sounds or images contained thereon shall be punished as provided in section one hundred and forty-three D.").

have no function relating to the protection of the copyright. They only serve to promote the record company's direct sales to the retailers' customers. Such technology, currently used on CDs, is equally available for misuse in connection with digital downloads, where every time a retailer makes a sale, the retailer must share the customer with the copyright owner/competitor. Under such circumstances, Congress should consider creating a statutory license alternative to give competing merchants access to unadulterated works, subject of course to appropriate copy protection measures.

(d) What is the relationship between existing and emergent technology, on one hand, and the first sale doctrine, on the other?

From the standpoint of the first sale doctrine, there is no relationship in that the first sale doctrine does not depend upon any particular technology used to make the copy or phonorecord. However, the new and emergent technology is increasingly being used to circumvent the effect of the first sale doctrine and to impose upon owners certain usage rules that are not among the Section 106 rights under the Copyright Act. Thus, it is copyright misuse by tying the copyright monopoly to the ability to extract compliance (either technologically or through forced "click-wrap" non-negotiable agreements) with conditions or terms to which the copyright owner is not entitled under copyright law.

(e) To what extent, if any, is the first sale doctrine related to, or premised on, particular media or methods of distribution?

Nothing in the first sale doctrine itself, or Section 109 in particular, limits its application to particular media or methods of distribution.

A. The First Sale Doctrine Applies To All Media Including Digital Media

It is clear from the definition of the terms "copy" and "phonorecord" that both terms encompass digital media embodied in a tangible medium of expression:

“Copies” are material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. . . .

Section 101 (emphasis added).

“Phonorecords” are material objects in which sounds, other than those accompanying a motion picture or other audiovisual work, are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. . . .

Id. (emphasis added). Thus, existing law makes it crystal clear that a copy or phonorecord can be made out of any tangible object. The distribution right is exhausted with respect to copies or phonorecords, not only with respect to the listed material objects in the definitions of “sound recordings”¹⁴ and “audiovisual works,”¹⁵ but also flash memory cards, microchips, recordable (and home recorded) CDs or DVDs, and even computer hard drives. Of course, this does not mean that the owner of the material object can make copies without the copyright owner’s consent. Rather, it means that if a copy or phonorecord was “lawfully made,” the holder of the distribution right cannot lawfully prevent the owner of the material object from selling the material object, loaning it to a friend (or a library patron), or giving it away.

All that is required for the first sale doctrine and Section 109 to apply is that the media be tangible – that it be a “copy” or “phonorecord” as defined in Section 101. Congress intentionally

¹⁴ “‘Sound recordings’ are works that result from the fixation of a series of musical, spoken, or other sounds, but not including the sounds accompanying a motion picture or other audiovisual work, regardless of the nature of the material objects, such as disks, tapes, or other phonorecords, in which they are embodied.” Section 101 (emphasis added).

¹⁵ “‘Audiovisual works’ are works that consist of a series of related images which are intrinsically intended to be shown by the use of machines or devices such as projectors, viewers, or electronic equipment, together with accompanying sounds, if any, regardless of the nature of the material objects, such as films or tapes, in which the works are embodied. *Id.* (emphasis added).

made these definitions and the scope of the Copyright Act applicable to all media, even if not yet in existence. Section 101.

The intent of Congress is clear from the statutory language itself. Nevertheless, the House Judiciary Committee explained that this was precisely its intent, and that it also intended to legislatively overrule a court holding to the contrary. See H.R. REP. NO. 1476, 94th Cong., 2d Sess., at 52 (quoted *supra* at 10).

Like Congress, state legislatures also saw the need to be forward-looking by insuring that their statutes would remain applicable to new technology without the need for continuous amendments. NARM and VSDA worked closely with the Recording Industry Association of America (“RIAA”) and Motion Picture Association of America (“MPAA”) during the early 1990s to persuade several state legislatures to update their “truth in labeling” laws applicable to audiovisual works and sound recordings to include compact discs and other media “now known or later developed.”¹⁶ Such laws were first developed when analog tape was the recording media of the day, and digital recordings on tape, CDs or other media were not even on the horizon. With the advent of digital media, however, these state legislatures that considered the applicability of their laws to the digital era realized that by inclusion of the qualifier “now known or later developed” it would be unnecessary to amend the laws with each new technological innovation because the principle was clear: The media was not to be confused with the message. The need for proper identification was a lasting principle applicable to existing media and to any other tangible medium of expression “now known or later developed.” The more recent legislation in the few states enacting the Uniform

¹⁶ See, e.g., Code of Ala. § 13A-8-80; Ariz. Rev. Stat. § 13-3705; Ark. Stat. Ann. § 5-37-510; D.C. Code §§ 22-3814 and 22-3814.1; Fla. Stat. § 540.11; K.S.A. § 21-3750; K.R.S. § 434.445; Mass. Ann. Laws ch. 266, § 143; Va. Code Ann. § 59.1-41.4.

Computer Information Transactions Act (“UCITA”) – two years after enactment of the DMCA and with digital distribution in full swing – continues to use this forward-looking media agnostic formulation.¹⁷

B. The First Sale Doctrine Applies To All Owners Of Lawfully Made Copies Regardless of Distribution Method.

As for methods of distribution, all that is required for the first sale doctrine and Section 109 to apply is that the “owner” be a lawful owner of a lawfully made copy or phonorecord. As noted above, the first sale doctrine has never required that ownership be established through normal sale. Ownership may also be obtained through sale in breach of contractual restrictions,¹⁸ gift,¹⁹ manufacturing under license,²⁰ salvage or even waste paper.²¹ The critical focus is on whether the person asserting the first sale doctrine right is the lawful owner of a lawfully made copy.²² This

¹⁷ See, e.g., Va. Code Ann. § 59.1-503.7(f)(1) (“A grant of ‘all possible rights and for all media’ or ‘all rights and for all media now known or later developed,’ or a grant in similar terms, includes all rights then existing or later created by law and all uses, media, and methods of distribution or exhibition, whether then existing or developed in the future and whether or not anticipated at the time of the grant.”).

¹⁸ See *United States v. Atherton*, 561 F.2d 747 (9th Cir. 1977).

¹⁹ See, e.g., *Walt Disney Productions v. Basmajian*, 600 F. Supp. 439 (1984).

²⁰ See, e.g., *United States v. Sachs*, 801 F.2d at 842.

²¹ See, e.g., *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977).

²² Given that unambiguous statutory formulation, it is questionable how much guidance is even needed from the legislative history . . . [and] on balance, it would seem that the literal text of Section 109(a) should be followed, so that immunity may be claimed by any “owner of a particular copy or phonorecord lawfully made,” and not just by those who acquired such ownership via a prior transfer from the copyright owner.

Nimmer, § 8.12[B][3][c].

analysis may involve a determination of whether there was a first sale by the copyright owner, but at bottom the question is whether the copyright owner exercised its distribution right -- its right to vend -- by placing that copy or phonorecord in commerce or otherwise giving up title to it.

(f) To what extent, if any, does the emergence of new technologies alter the technological premises (if any) upon which the first sale doctrine is established?

At the outset, it warrants noting once again that the Copyright Act has been carefully crafted to apply to new technologies without modification. (See discussion at Part II(2), *supra.*, concerning the 1976 Act's inclusion of the phrase "now known or later developed" in reference to the definition of certain works and the tangible media of expression in which they are fixed, and the discussion in response to question (e), *supra.*.) Thus, the first sale doctrine applies to "copies" and "phonorecords" which have been defined to encompass copies and phonorecords in any conceivable form, so long as they are embodied in a tangible medium.

On the other hand, in crafting a forward-looking Copyright Act, Congress appears not to have envisioned the situation facing us now, in which the very digital technology used to create new forms of copies and phonorecords is also used to circumvent the first sale doctrine, such that copyright owners are able to gain all of the protections of the Copyright Act without having to abide by the requisite constitutionally-based limitations imposed by law. Thus, while the premises of the first sale doctrine have not substantively been altered in any way by new technology, one fundamental premise of the first sale doctrine was that the law could be given its intended effect. That is, it was premised on the notion that the owner of a lawfully made copy or phonorecord would have certain rights as against the copyright owner with respect to the copies he or she owned, and that the law would be sufficient to protect those rights. Today, however, the law's ability to protect the Section

109 right is being threatened, as technology enables the copyright owner to effectively control the use and further distribution of a copy or phonorecord notwithstanding the copy or phonorecord owner's right to use or dispose of it freely. In effect, copyright owners are able to use new technologies to thumb their noses at the constitutionally-mandated restrictions on copyright. They can tell the owner of a copy or phonorecord: "Certainly you may loan your sound recording on CD to a friend, but your friend cannot listen to it without paying for my key to unlock it." "Certainly you may sell your movie on DVD, but the new owner will not be able to watch it without paying another fee." "Certainly you may rent it, but you will have to pay extra for me to turn off the limited play feature." In other words, today's technology can already be used to prevent the Section 109 rights from being used in any meaningful way.

(g) Should the first sale doctrine be expanded in some way to apply to digital transmissions? Why or why not?

For the reasons discussed above, it is the contention of VSDA and NARM that the first sale doctrine need not be expanded to "apply" to digital transmissions because the first sale doctrine clearly already applies to the results of those transmissions. That is, the transmission itself, during the course of transmission, is not a "copy" or "phonorecord" because the work is not fixed in a tangible medium of expression, and therefore Section 109 does not apply. However, once the digital transmission is complete and the audiovisual work or sound recording is fixed in a tangible medium of expression (such as a computer hard drive, CD, DVD, or flash memory) Section 109 clearly applies. The owner of the tangible medium becomes the owner of a lawfully made copy or phonorecord, and may dispose of the copy or phonorecord without the copyright owner's consent. The owner "may use or dispose of that copy as he [or she] wishes, unrestricted by the copyright law."

Burke & Van Heusen, Inc. v. Arrow Drug, Inc., 233 F. Supp. 881, 882 (E.D. Pa. 1964) (citations omitted).

Notwithstanding the above, NARM and VSDA do believe that the reach of the first sale doctrine should be “expanded” to insure its effectiveness and continued viability.

C. Doctrine of Copyright Misuse Should Be Applied Where Technology Is Used To Circumvent The Operation Of The First Sale Doctrine

There is an increasing trend on the part of the owners of large collections of copyrighted works to attempt to control the retailing operations by relying upon retailers to make the “sale” – to solicit the consumer and enter into a transaction authorizing the consumer to download (manufacture) a work – while preventing the retailer from controlling other communications or transmissions separate from the copyrighted work. For example, the copyright owner might allow the retailer to make the sale, but insist upon transmitting the content directly to the consumer and, in the process, solicit personally identifiable information from the consumer and perhaps impose so-called “click wrap” conditions upon the consumer.

For this reason, and the reasons noted in response to question (f), VSDA and NARM believe that the copyright misuse doctrine should be applied by the courts to keep in check those who would abuse the new access control technologies to extend the copyright beyond its term or to interfere with the Section 109 rights of owners of lawfully made copies of phonorecords. The Copyright Office should assign works to which such restrictive technologies have been applied to a class to which the Section 1201 prohibition on circumvention should not apply. Finally, there should be enacted an anti-circumvention measure to protect the first sale doctrine from being trampled by arbitrary

technological means. For example, a new subsection to Section 1201 could be added, stating something along these lines:

This section shall not apply to access control technologies which prevent access to copyrighted works beyond the term of the copyright, give the copyright owner greater rights than those granted in Section 106, or impair the rights of the owner of a copy or phonorecord lawfully made under this title as set forth in Section 109.

D. The First Sale Doctrine Should Be Expanded To Apply To Use of Technology To “Move” Digital Content From One Medium To Another

New technology has emerged to effectively mimic the intent of the first sale doctrine without requiring the transfer of ownership of the tangible medium itself. So-called “move” technology can be used to enable the owner of a copy or phonorecord to, in effect, “move” the copy without transferring ownership of the tangible medium – which could prove difficult or undesirable if the tangible medium happened to be a computer hard drive – but by actually making a copy using technology that effectively deletes or “locks out” access to the copy from which it is made. In other words, there may literally be two copies, but only the second copy can be accessed.

Use of “move” technology, a variation of which is sometimes referred to as a “check-in/check-out” process, could be very useful in increasing market efficiencies. For example, in a retailing environment, a retailer could purchase multiple “copies” for inventory, but the technology could allow all such “copies” to reside in one real copy, with technological controls to insure that only the number of copies paid for can be technologically “moved” to a different medium for transfer to the consumer. Each time a copy is so “moved,” a counter associated with the retailer’s virtual inventory of copies reduces the number of copies available for moving by a factor of one. The net effect is that the copyright owner will have been compensated for each copy that makes its way to

the ultimate consumer, but intermediaries will save valuable storage space. *See, e.g., Lantern Press, Inc. v. American Publishers Co.*, 419 F. Supp. 1267 (1976) (use of chemicals to “lift” art work off of paper and move it onto resin film was protected by the first sale doctrine).

A similar result could be obtained by authorizing the retailer to license consumers to make copies, but recognition of “move” and “check-in/check-out” technology as the equivalent of transfer of the tangible medium would continue to preserve the consumer’s right to alienation of property without forcing a transfer of the tangible medium. This would be particularly desirable where incompatible media render the physical transfer of ownership ineffective. The owner of a copy on a computer hard drive could, for example, “sell” the copy or phonorecord without transferring the hard drive but, instead, transfer the content to new media while at the same time disabling access to the hard drive copy. Such technology is already available and sometimes used to control “use” of a copy or phonorecord in ways that exceed the copyright owner’s authority. The technology could just as well be used for the benefit of science and the useful arts by allowing greater transfer of copies for which the copyright owner has already been fully compensated.

(h) Does the absence of a digital first sale doctrine under present law have any measurable effect (positive or negative) on the marketplace for works in digital form?

Again, VSDA and NARM vehemently deny the “absence of a digital first sale doctrine under present law” for the reasons discussed above. Assuming, *arguendo*, that the first sale doctrine does not apply to digital media we would be faced with the immediate prospects of copyright owners controlling forever what people do with and how (or whether) they can dispose of the motion pictures and sound recordings that they buy.

Curiously, this question inquires about “the marketplace for works in digital form” without explanation. If by this phrase is meant works recorded in digital form onto a tangible medium of expression, then there is certainly no “absence” of the first sale doctrine which, as discussed above, applies regardless of the medium used or the method (e.g. analog or digital) used. If the phrase intends to apply only to digital transmissions without copying onto a tangible medium, then the fact that the first sale doctrine does not apply where the work is not embodied in a tangible medium of expression – regardless whether analog or digital – means *a fortiori* that digital media would be treated the same as analog media and, just as the first sale doctrine does not apply to an analog radio or television broadcast of a song or audiovisual work, so, too, it does not apply to a digital broadcast (or digital “streaming” over the Internet) of a song or audiovisual work. Naturally, since neither analog or digital broadcasts can be “owned” (as there is nothing that can be owned), the absence of a first sale doctrine applicable to the broadcast or transmission itself – without any copying or recording onto a tangible medium of expression – would have no effect on such non-existent marketplace.

To put it another way, “works in digital form” have no marketplace save when they are embodied in a tangible medium of expression. Once they are so embodied, the owner of that copy or phonorecord may, under present law, sell or otherwise dispose of such copy without the authority of the copyright owner in accordance with the first sale doctrine and Section 109. The only remaining policy question is whether, and how, technological measures used to circumvent the first sale doctrine can be kept in check.

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