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Out with the Old, in with the New: How a Functionalist Approach Could Save a Dying First Sale Doctrine

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**Out with the Old, in with the New: How a Functionalist
Approach Could Save a Dying First Sale Doctrine**

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By Tricia Riskin*

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I. INTRODUCTION

¶1 In this age of digital music, online-movie streaming, and rapidly advancing technology, the need for a revised Copyright Act is no secret.¹ Even Maria Pallante, the Register of Copyrights and Director of the U.S. Copyright Office, has spoken about the need for sweeping change, stating: “[T]here comes a time the subject ‘ought to be dealt with as a whole, and not by further merely partial or temporizing amendments.’”² While Ms. Pallante was speaking broadly of the need for in-depth revision of the Copyright Act,³ this Note focuses on a subset of the Copyright Act: the First Sale Doctrine (the Doctrine), which grants certain rights to purchasers of copyrighted material. More specifically, this Note focuses on both the need for a revision of the Doctrine, and what a revision to this Doctrine might look like.

¶2 Currently, the Doctrine is too rigid in the face of evolving modern technology. The Doctrine was written at a time when copies of a work were tangible and burdensome to make, while today digital copies can be made with just the click of a button. Because of this change, a formalist application of the Doctrine often produces absurd results, harming both copyright holders and consumers. Instead, a functionalist approach to the Doctrine and a more flexible rule are needed to address these technological advances, which were unforeseen when the Doctrine was first introduced.

¶3 Part II begins the analysis by exploring the statutory landscape of copyright law as it relates to the Doctrine. Part III examines two recent cases interpreting the Doctrine: *Kirtsaeng v. John Wiley & Sons*⁴ and *Capitol Records v. ReDigi*.⁵ Part IV analyzes these decisions and explores the potential effects that the decisions might have on the secondhand market, black market, and pirated goods generally. Part V discusses the considerations and challenges that must be addressed when crafting a new rule. Finally, Part VI suggests a more flexible Doctrine, using a functionalist approach to resolve some of the problems that have arisen—and continue to arise—with the current Doctrine as technology advances.

II. BACKGROUND

A. History of the Copyright Act and First Sale Doctrine

¶4 Congressional authority for the Copyright Act comes from Article 1, Section 8, Clause 8 of the U.S. Constitution, whose purpose is “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive right to their respective Writings and Discoveries.”⁶ The first Copyright Act was enacted in 1790, permitting authors to obtain a fourteen-year copyright for “maps, charts, and books,” which granted exclusive rights to “print, reprint, publish, or vend” the authors’ respective

¹ See Ted Johnson, *Register to Call for Major Revision to Copyright Law*, VARIETY (Mar. 19, 2013), <http://variety.com/2013/digital/news/register-to-call-for-major-revision-to-copyright-law-1200326105/>.

² Maria A. Pallante, *The Next Great Copyright Act*, 36 COLUM. J.L. & ARTS 315, 319 (2013) (quoting Thorvald Solberg, *Copyright Law Reform*, 35 YALE L.J. 48, 62 (1926)).

³ See *id.*

⁴ *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

⁵ *Capitol Records, LLC v. ReDigi Inc.*, 934 F. Supp. 2d 640 (S.D.N.Y. 2013).

⁶ U.S. CONST. art. I, § 8, cl. 8.

works.⁷ The Copyright Act was amended in 1831 to include musical compositions and to extend the copyright term to twenty-eight years for all works.⁸

¶15 In 1908, the Supreme Court established the First Sale Doctrine in *Bobbs-Merrill Co. v. Straus*, holding that:

[O]ne who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it. The purchaser of a book, once sold by authority of the owner of a copyright, may sell it again, although he could not publish a new edition of it.⁹

In essence, the Doctrine establishes that once a copyrighted work is sold, the initial purchaser may dispose of the work as she sees fit, as long as she does not copy the original work. Further, the Court held that giving notice of a restriction on future sales was insufficient, and that such a restriction applies only to parties in privity of contract.¹⁰ For more than half a century, the Doctrine derived its authority from common law, until the Copyright Act of 1976 officially codified this longstanding legal maxim.¹¹

¶16 Three sections in the Copyright Act of 1976 are particularly important to this Note. The first is § 106, which grants authors exclusive rights in their works, such as the right to control the reproduction and distribution of copyrighted works.¹² The second is § 109, which codifies the Doctrine.¹³ Section 109 goes on to describe other exceptions—and

⁷ Act of May 31, 1790, 1 Stat. 124.

⁸ Act of Feb. 3, 1831, Ch. 16, 4 Stat. 436.

⁹ *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908).

¹⁰ *Id.*

¹¹ Copyright Act of 1976, Pub. L. No. 94-553, § 109, 90 Stat. 2541 (current version at 17 U.S.C. § 109 (2012)).

¹² 17 U.S.C. § 106 (2012). Section 106 provides authors exclusive rights:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
- (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
- (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
- (6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

Id. Each of the § 106 exclusive rights is crucial in deciding if and how new services and technologies infringe on authors' copyrights. This Note, however, focuses primarily on the exclusive rights to making and distributing copies of copyrighted works, which a revised Doctrine would most directly implicate.

¹³ 17 U.S.C. § 109 (2012). Section 109 codifies the Doctrine, stating:

- (a) Notwithstanding the provisions of [§] 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person 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. . . .

exceptions to those exceptions—that apply specifically to computer software.¹⁴ The third is § 602, which outlines rules for the importation and exportation of copyrighted works.¹⁵ Specifically, § 602 provides that importing copyrighted works acquired outside of the United States without the copyright holder’s consent constitutes an infringement of the author’s exclusive rights under § 106.¹⁶ Section 602 then lists specific exceptions to this prohibition on importation,¹⁷ including importation under government authority, personal use not intended for distribution, and importation by or for organizations with scholarly, educational, or religious purposes.¹⁸ Understanding how these three provisions relate is essential to any analysis of the Doctrine and its application.

B. Legal Distinctions Between Print and Digital Media

Although courts and Congress have recognized that digital media may require special treatment,¹⁹ the current Doctrine, as a whole, nevertheless applies to print and digital media alike.²⁰ Yet the Doctrine was codified long before digital media’s inception. New copyright issues continue to emerge from the increased prevalence of digital media, posing difficulties that require courts to interpret this archaic Doctrine in light of modern realities.²¹ Two of these issues—licensing and protective software—illustrate the complexities and nuances that arise in the digital copyright context, and how drafting legislation that addresses evolving technology is uniquely difficult. Subsection (1) evaluates § 109’s amendment limiting the Doctrine’s application to computer programs, and how this targeted legislation affected, and continues to affect, software providers and end-users. Subsection (2) addresses the use of digital rights management (DRM) technology, which protects software from unlawful replication, and how Congress’s attempt to devise a legislative solution fell short of achieving its intended result. In the end,

. . . .

(b)(1)(A) Notwithstanding the provisions of subsection (a), unless authorized by the owners of copyright in the sound recording or the owner of copyright in a computer program . . . and in the case of a sound recording in the musical works embodied therein, neither the owner of a particular phonorecord nor any person in possession of a particular copy of a computer program . . . may, for the purposes of direct or indirect commercial advantage, dispose of, or authorize the disposal of, the possession of that phonorecord or computer program . . . by rental, lease, or lending, or by any other act or practice in the nature of rental, lease, or lending.

Id. § 109 (a)–(b)(1)(A).

¹⁴ *Id.* § 109 (b)(1)(B)–(b)(2). While these are important parts of the Copyright Act, the intricacies of computer licensing extend beyond the intended scope of this Note.

¹⁵ 17 U.S.C. § 602 (2012).

¹⁶ *Id.* § 602(a)(1).

¹⁷ *Id.* § 602(a)(3).

¹⁸ Section 602, and specifically the exception for scholarly and educationally organizations, was particularly important in the *Kirtsaeng* decision discussed *infra* Part III. In that case, the U.S. Supreme Court confronted the issue of whether the Doctrine’s geographical reach extends to foreign-produced books, which, as evinced by the conflicting opinions, ultimately highlights the need for the Doctrine’s statutory revision. See *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

¹⁹ See, e.g., 17 U.S.C. §§ 109(b), 1201.

²⁰ See, e.g., *Capitol Records, LLC v. ReDigi Inc.*, 934 F. Supp. 2d 640 (S.D.N.Y. 2013).

²¹ See, e.g., Pamela Samuelson, *Some New Kinds of Authorship Made Possible by Computers and Some Intellectual Property Questions They Raise*, 53 U. PITT. L. REV. 685 (1992).

both scenarios provide guidance as to how legislation could rectify the Doctrine's current flaws.

1. Licensing

¶8 One of the first questions to surface with the Doctrine's application to modern technology involved computer software.²² Congress amended § 109 to limit the Doctrine's applicability to computer software.²³ Unless permitted by the copyright holder, no "person in possession of a particular copy of a computer program . . . [may] dispose of . . . [a] computer program . . . by rental, lease, or lending."²⁴ This allows the owner of a copyright in software to maintain his exclusive distribution rights with respect to renting, leasing, or lending the software program.

¶9 Copyright holders who qualify for this exception often employ form contracts, or end-user license agreements (EULAs),²⁵ which can be modified to "permit the contracting flexibility that is essential for today's software products."²⁶ Typically included within software packaging or displayed on a computer screen,²⁷ an end-user agrees to the contract by performing a certain act, such as by opening the box or clicking a button.²⁸

¶10 Although these "contracts of adhesion" have garnered much criticism,²⁹ EULAs often grant legal rights to consumers that they otherwise would not have had.³⁰ For instance, EULAs might grant consumers the right to distribute materials using certain fonts from a word-processing program or the right to make, copy, and sell derivative works using sample source code.³¹ EULAs allow software providers to protect their innovative technology from exploitative uses, which, without § 109's restrictions, would impermissibly limit end-users' rights under the Doctrine.³² And while software providers could ostensibly negotiate with each purchaser, the transaction costs of doing so would hinder the dissemination of this beneficial technology by increasing market prices.

¶11 In sum, EULAs both protect copyrights from infringement and grant distinct rights to consumers. Without over burdening end-users, these licensing schemes provide flexibility for innovators and thus facilitate technological development, illustrating how specifically tailored legislation can resolve issues that arise from the application of antiquated law to novel innovation.

²² *See id.*

²³ 17 U.S.C. § 109(b).

²⁴ *Id.* § 109(b)(1)(A).

²⁵ *See* Robert W. Gomulkiewicz & Mary L. Williamson, *A Brief Defense of Mass Market Software License Agreements*, 22 RUTGERS COMPUTER & TECH. L.J. 335, 339 (1996).

²⁶ *Id.* at 366.

²⁷ *Id.*

²⁸ *Id.*

²⁹ *Id.* "The increasing ability to expand protection for copyrighted works through the use of non-negotiable 'contracts' is troublesome . . . [J]ustifications for this contract-based approach are based on assumptions about contract formation that are not present in the modern software industry. . . [I]t is a threat to the delicate balance of public policy that supports intellectual property law." Craig Zieminski, *Game Over for Reverse Engineering?: How the DMCA and Contracts Have Affected Innovation*, 13 J. TECH. L. & POL'Y 289, 330 (2008).

³⁰ Zieminski, *supra* note 29, at 354–55.

³¹ *Id.*

³² *See supra* notes 9–11 and accompanying text.

2. The Digital Millennium Copyright Act

¶12 Digital rights management (DRM) technology is another way to protect copyrighted digital works from exploitation.³³ DRM technology prevents users from making copies of copyrighted digital works without a password.³⁴ However, in the 1990s, as parties began developing DRM technology, others attempted to devise DRM-circumvention technology, often with much success.³⁵

¶13 In 1998, Congress passed the Digital Millennium Copyright Act (DMCA) to combat the proliferation of DRM-circumvention technology, criminalizing the production, distribution, or use of services aimed at bypassing these access controls.³⁶ Importantly, as the DMCA currently stands, the threshold for violating the DMCA is lower than that for copyright infringement.³⁷ Although a bill was recently introduced in the U.S. House of Representatives requiring an actual copyright violation to occur for liability under the DMCA to arise, it never reached a vote, meaning that the use of a DRM-disabling program or device is currently illegal unless one of the few anti-circumvention exemptions apply.³⁸

¶14 The DMCA's reach extends far beyond its likely intended scope, criminalizing certain uses of software that qualify as fair use under 17 U.S.C. § 107.³⁹ Because of this broad scope, many argue that the DMCA actually stifles the development of DRM technology. For example, unwary academics researching DRM-circumvention software can easily violate the DMCA unintentionally, which in turn deters beneficial research.⁴⁰ One commentator noted:

The science of cryptography depends on cryptographers' ability to exchange ideas in code, to test and refine those ideas By communicating with other researchers and testing each others' work, cryptographers can improve the technologies they work with, discard those that fail, and gain confidence in technologies that have withstood repeated testing.⁴¹

³³ Victor Mayer-Schonberger, *Beyond Copyright: Managing Information Rights with DRM*, 84 DENV. U. L. REV. 181, 181 (2006).

³⁴ *Id.* at 182.

³⁵ *Id.* at 184–85 (“To break out of this straight-jacket, many tools have been developed and remain available on the Internet to either strip the music from FairPlay restriction data, or to otherwise enable the unauthorized sharing of DRMed music content. Creating, disseminating and using such tools may be potentially illegal, but nevertheless continues to take place.”).

³⁶ 17 U.S.C. § 1201 (2012).

³⁷ *See id.*; cf. 17 U.S.C. § 107 (2012).

³⁸ Unlocking Technology Act of 2013, H.R. 1892, 113th Cong. (2013).

³⁹ Joseph P. Liu, *The DMCA and the Regulation of Scientific Research*, 18 BERKELEY TECH. L.J. 501, 509 (2003).

⁴⁰ *Id.* at 503 (“Thus, even though academic encryption researchers can continue to conduct and publish some of their research under the DMCA without significant practical risk of criminal or civil liability, the DMCA significantly affects the manner in which that research is conducted.”).

⁴¹ *Id.* at 511 n.37 (quoting Brief of Amici Curiae Dr. Steven Bellovin et al. at 14, *Universal City Studios, Inc. v. Corley*, 273 F.3d 429 (2d Cir. 2001) (No. 00-9185), *available at* <http://cyber.law.harvard.edu/openlaw/DVD/NY/appeals/010126-cryptographers-amicus.pdf>).

Unlike the amendment to § 109, the DMCA’s over-inclusive scope has created a chilling effect on independent research, which is a necessary component for improving anti-circumvention technology.⁴² The DMCA’s innovation-stymieing impact likely outweighs the benefits stemming from its deterrent effect.⁴³

¶15 In addition, the DMCA limits online service providers’ liability for copyright infringement committed by their users.⁴⁴ Consequently, the DMCA provides strict copyright protection in that it applies to any action meant to circumvent DRM technology regardless of whether a copyright violation actually occurred. But at the same time, the DMCA makes detecting and punishing digital copyright violations more difficult by excluding service providers from its reach, instead focusing primarily on the innumerable, widely-dispersed, and effectively anonymous individuals attempting to circumvent DRM technology.⁴⁵ Ultimately, the DMCA’s over-inclusiveness and rigid mandate serve as a cautionary tale for any subsequent attempts to regulate evolving technology.

III. KIRTSAENG & REDIGI

¶16 Part III turns to the Doctrine’s current application. Part III(A) analyzes the most relevant case, *Kirtsaeng v. John Wiley & Sons, Inc.*, and explores the reasoning behind the differing opinions. Part III(B) then discusses *Capitol Records LLC v. ReDigi, Inc.*—an ongoing case before the U.S. District Court for the Southern District of New York—which, read in tandem with *Kirtsaeng*, suggests that unintended consequences, ranging from increased piracy to heightened financial burdens for libraries, are likely to result without a change to the Doctrine.

A. Kirtsaeng v. John Wiley & Sons, Inc.

¶17 In *Kirtsaeng*, the Supreme Court confronted the issue of whether reselling imported, foreign-produced textbooks violated copyright law.⁴⁶ John Wiley & Sons (Wiley), a global provider of educational solutions and products, often publishes textbooks through its network of wholly owned subsidiaries in Asia.⁴⁷ In this case, Wiley claimed that it retained the copyrights to all works published abroad, which were identical to the American versions except for a copyright notice in the foreign-produced books stating:

⁴² See *id.* at 509–10.

⁴³ See Zieminski, *supra* note 29, at 324 (“[B]ecause of the intertwined nature of idea and expression within software, and because of the gatekeeper function performed by access control measures, new restrictions on reverse engineering allow parties to monopolize ideas using the Copyright Act.”). “Copyright law, even as it relates to computer programs, has never before offered monopoly protection for ideas, processes, and functions. This inconsistency is a warning sign that lawmakers have over-restricted reverse engineering.” *Id.* at 326.

⁴⁴ 17 U.S.C. § 512 (2012).

⁴⁵ Annemarie Bridy, *Is Online Copyright Enforcement Scalable?*, 13 VAND. J. ENT. & TECH. L. 695, 717–18 (2011) (“Nevertheless, the exemption has operated in the context of P2P file sharing to negate the scalable enforcement mechanism that notice and takedown provides. Inasmuch as P2P file sharing shifts the locus of infringing activity from the storage function to the transmission function, it places such activity beyond the knowledge and control of the ISP and thus beyond the reach of the enforcement scheme created by § 512(c).”).

⁴⁶ *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

⁴⁷ *Id.* at 1356; see *About Wiley*, JOHN WILEY & SONS, <http://www.wiley.com/WileyCDA/Section/id-301695.html> (last visited Mar. 19, 2015).

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¶18 Kirtsaeng, a Thai national, studied abroad in the United States and noticed the price difference between textbooks sold in the United States and the same textbooks sold in Thailand.⁴⁹ While studying in the United States, Kirtsaeng instructed his family and friends to buy textbooks from local Thai bookstores and ship the textbooks to him in the United States.⁵⁰ He then sold the books, reimbursed his family and friends, and kept the profits.⁵¹ In 2008, Wiley sued Kirtsaeng in federal court for copyright infringement.⁵²

¶19 In a 6-to-3 decision, the Supreme Court held in favor of Kirtsaeng.⁵³ Justice Breyer delivered the majority opinion, Justice Kagan issued a concurring opinion, and Justice Ginsburg dissented.⁵⁴ Although each opinion weighed the legal effects on publishers and purchasers, the opinions varied as to the realistic consequences of limiting the Doctrine's reach and the proper application of conflicting statutory language.⁵⁵ Taken together, these opinions demonstrate a clear need for a more flexible rule that better balances conflicting interests.

1. Majority Opinion

¶20 Writing for the majority, Justice Breyer held that the Doctrine permits selling foreign-printed secondhand books in the United States, regardless of § 602's conflicting importation restrictions.⁵⁶ The Court relied on *Quality King Distributors v. L'anza*, where it found that the § 602 importation limitations did not apply to previously exported U.S.-printed books that were subsequently imported back to the United States.⁵⁷ By extending its reasoning in *Quality King*, the Court held that § 602's reference to § 106 intended to incorporate all of the § 106 exceptions, including the Doctrine.⁵⁸

¶21 The key factual difference between *Kirtsaeng* and *Quality King* concerned the allegedly infringed books' geographical origins. In *Quality King*, the books were printed in the United States, whereas the books in *Kirtsaeng* were printed abroad.⁵⁹ Because of this

⁴⁸ *Kirtsaeng*, 133 S. Ct. at 1356 (quoting J. WALKER, FUNDAMENTALS OF PHYSICS vi (Wiley Int'l Student ed., 8th ed. 2008)).

⁴⁹ *Id.*

⁵⁰ *Id.*

⁵¹ *Id.*

⁵² *Id.*

⁵³ *Id.* at 1354.

⁵⁴ *Id.*

⁵⁵ *Id.* at 1354–71 (majority opinion); *id.* at 1373–91 (Ginsburg, J., dissenting). Justice Kagan's balancing is more indirect, as she agrees with the majority's reasoning, but mentions that Congress might want to intervene, suggesting she is skeptical about the actual result. *Id.* at 1372–73 (Kagan, J., concurring).

⁵⁶ *Id.* at 1358–60 (majority opinion).

⁵⁷ *Id.* at 1355; *Quality King Distrib. v. L'anza Research Int'l*, 523 U.S. 135 (1998).

⁵⁸ *Quality King Distrib.*, 523 U.S. at 144.

⁵⁹ *Kirtsaeng*, 133 S. Ct. at 1355.

geographic distinction, the *Kirtsaeng* Court’s focus turned to what Congress intended by including § 109’s reference to “lawfully made under this title.”⁶⁰ Determining whether the law was meant to include foreign-printed books required the Court to adopt either a geography-based or non-geography-based reading of § 109.⁶¹ The geography-based reading would apply § 109 only to those books made in the geographic jurisdiction of the United States,⁶² while the non-geography-based reading would interpret “lawfully made under” to mean “in compliance with,” thus extending the Doctrine to books published abroad.⁶³ The majority adopted the non-geography-based reading.⁶⁴ As a result, because Wiley’s Asian subsidiary had permission to print the books, the foreign-produced books were “lawfully made under this title” and subject to the Doctrine, making *Kirtsaeng*’s actions legal.⁶⁵

¶22 Beyond matters of statutory interpretation, the majority referenced the impact a geographical reading could have on libraries, used-book sellers, and museums, among others.⁶⁶ For instance, the Court imagined an onerous process requiring libraries to track down and receive author permission for every foreign-printed book in their collections before being able to lawfully lend such books.⁶⁷ Seeking to avoid this result, and bolstered by their holding in *Quality King*, the majority found that *Kirtsaeng* had not infringed Wiley’s copyright.⁶⁸ But by granting the Doctrine extraterritorial application, the *Kirtsaeng* majority’s interpretation essentially gutted § 602(a)(1), taking away one of the few advantages print publishers have left in this digital age.

2. Justice Kagan’s Concurrence

¶23 Although Justice Kagan agreed with the majority’s reasoning and decision, she noted that *Kirtsaeng* and *Quality King*, when read together, limited § 602(a)(1) to “a fairly esoteric set of applications.”⁶⁹ Justice Kagan suggested this limitation did not result from the *Kirtsaeng* majority’s faulty reasoning, but rather from the holding in *Quality King*.⁷⁰ She clarified, however, that the solution to this problem should not be to “misconstrue § 109(a) in order to restore § 602(a)(1) to its purportedly rightful function,” but that Congress should provide statutory guidance as to the correct interpretation of these conflicting provisions.⁷¹

3. Justice Ginsburg’s Dissent

¶24 Justice Ginsburg began her opinion quoting *United States v. American Trucking*: “[I]n the interpretation of statutes, the [function of the courts is easily stated. It is to construe

⁶⁰ *Id.*; 17 U.S.C. § 109(a) (2012).

⁶¹ *Kirtsaeng*, 133 S. Ct. at 1358.

⁶² *Id.*

⁶³ *Id.*

⁶⁴ *Id.*

⁶⁵ *Id.* at 1358–59.

⁶⁶ *Id.* at 1364–65.

⁶⁷ *Id.*

⁶⁸ *See id.* at 1371.

⁶⁹ *Id.* at 1372 (Kagan, J., concurring).

⁷⁰ *Id.*

⁷¹ *Id.* at 1373.

the language so as to give effect to the intent of Congress.”⁷² Coupled with her criticism of the Court’s “bold departure from Congress’[s] design,” Justice Ginsburg asserted that the effects of a geography-based interpretation of § 109, which the Court cited as both “too serious” and “too likely to come about,” were both unlikely to occur and outweighed by the far more probable adverse impact on publishers.⁷³ For Justice Ginsburg, the practical negative effects of the non-geography-based reading of “lawfully made under this title” overshadowed the “largely imaginary” “parade of horrors” the majority described.⁷⁴

¶25 Justice Ginsburg also referenced the texts of §§ 106(3), 109, and 602(1), and the reasoning behind *Quality King*—a decision in which she concurred.⁷⁵ Indeed, *Quality King* strongly supported her interpretation of § 602:

If the author of [a] work gave the exclusive United States distribution rights—enforceable under the Act—to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, . . . presumably only those [copies] made by the publisher of the United States edition would be “lawfully made under this title” within the meaning of § 109(a). The First Sale Doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a)⁷⁶

Justice Ginsburg criticized the *Kirtsaeng* majority for dismissing this language as “ill-considered dictum,” and noted that the Court’s unanimity in *Quality King* further bolstered her § 602 interpretation.⁷⁷

¶26 The opinions in *Kirtsaeng* show how statutory interpretations can diverge as a result of textual ambiguity. Rather than seeking a middle ground that would protect both copyright holders and book lenders, the Court chose to side with the latter.⁷⁸ And while Justice Ginsburg’s stance would protect publishers, it would nevertheless leave open the remote possibility that libraries could face copyright infringement suits for circulating foreign-produced books without authors’ consents.⁷⁹ The Court missed an opportunity to adopt a functionalist approach that would not only find *Kirtsaeng*’s actions illegal, but also protect libraries acting in good faith from the “parade of horrors” the majority described.

B. Capitol Records, LLC v. ReDigi Inc.

¶27 On its face, *Capitol Records v. ReDigi*—an ongoing case before the U.S. District Court for the Southern District of New York—seems unrelated to the outcome in *Kirtsaeng*.⁸⁰ But, if the issues decided in summary judgment are affirmed,⁸¹ this rigid,

⁷² *Id.* (Ginsburg, J., dissenting) (quoting *United States v. Am. Trucking Ass’n, Inc.*, 310 U.S. 534, 542 (1940)).

⁷³ *Id.*

⁷⁴ *Id.*

⁷⁵ *Id.* at 1374.

⁷⁶ *Id.* at 1375 (quoting *Quality King Distrib. v. Lanza Research Int’l*, 523 U.S. 135, 148 (1998)).

⁷⁷ *Id.* at 1376.

⁷⁸ *See id.* at 1364 (majority opinion).

⁷⁹ *See id.* at 1386 (Ginsburg, J., dissenting).

⁸⁰ *Capitol Records, LLC v. ReDigi Inc.*, 934 F. Supp. 2d 640 (S.D.N.Y. 2013).

⁸¹ *Id.*

formalist application of copyright law could prompt seismic changes in digital media, especially when read in tandem with *Kirtsaeng*. Moreover, as copyrighted digital media becomes more prevalent, the *ReDigi* decision could have extensive influence as courts inevitably face analogous scenarios.

¶28 *ReDigi* addressed “whether a digital music file, lawfully made and purchased, may be resold by its owner through ReDigi under the First Sale Doctrine.”⁸² The court held that the Doctrine did not apply.⁸³ ReDigi is an online marketplace that allows users to trade iTunes files with other ReDigi users by uploading their files to ReDigi’s cloud.⁸⁴ Before a user can upload a track, however, ReDigi screens the track to make sure it is a lawfully purchased iTunes file.⁸⁵ Files ripped from CDs or acquired by means other than iTunes are not eligible for the service.⁸⁶ Once uploaded to the cloud, the track is deleted from the originating computer, permitting the user to access the file but only from the cloud.⁸⁷ Although the files are not deleted automatically—users must do so themselves—ReDigi suspends accounts for those who do not comply.⁸⁸ Thus, when a user decides to trade one of his uploaded tracks for a new track, he loses access to the original track.⁸⁹ Because only one copy of a particular music file exists upon both upload and download, ReDigi argued that the service refrained from impermissibly copying an author’s copyrighted work.

¶29 But the district court was not convinced.⁹⁰ The court focused on the physical, rather than the digital, aspects of file transferring.⁹¹ The court stated that, for purposes of applying the Copyright Act, “reproduction occurs when a copyrighted work is fixed in a new *material object*.”⁹² The court further asserted that “when a user downloads a digital music file or ‘digital sequence’ to his ‘hard disk,’ the file is ‘reproduce[d]’ on a new phonorecord within the meaning of the Copyright Act.”⁹³ Therefore, because “[i]t is simply impossible that the same ‘material object’ can be transferred over the internet,” the digital transmission of a music file necessarily creates a new phonorecord, and the Doctrine does not protect the selling of copies of purchased phonorecords.⁹⁴

¶30 The court noted, however, that selling the hard drive or iPod upon which the digital file was first downloaded would be permissible in the same way that selling a used CD would be permissible.⁹⁵ While acknowledging that this was potentially “more onerous” than reselling a CD, the court believed the result was “hardly absurd” because “the First

⁸² *Id.* at 648.

⁸³ *Id.* at 660.

⁸⁴ *Id.* at 645. Uploading files to ReDigi’s cloud is essentially just uploading them to ReDigi’s servers. Eric Griffith, *What Is Cloud Computing?*, PC MAG. (Mar. 13, 2013), www.pcmag.com/article2/0,2817,2372163,00.asp (“In the simplest terms, cloud computing means storing and accessing data and programs over the Internet instead of your computer’s hard drive. The cloud is just a metaphor for the Internet.”).

⁸⁵ *See ReDigi*, 934 F. Supp. 2d at 645.

⁸⁶ *Id.*

⁸⁷ *Id.*

⁸⁸ *Id.*

⁸⁹ *Id.* at 646.

⁹⁰ *Id.* at 650.

⁹¹ *Id.* at 649.

⁹² *Id.* at 648 (emphasis in original).

⁹³ *Id.* at 649.

⁹⁴ *Id.*

⁹⁵ *Id.* at 656.

Sale Doctrine was enacted in a world where the ease and speed of data transfer could not have been imagined.”⁹⁶

IV. ANALYSIS AND IMPACT

A. How *Kirtsaeng* and *ReDigi* Could Quicken the Death of Print Media

¶31 The decline of print media is apparent. Bookstores across the country are shuttering their windows and print newspapers are becoming obsolete.⁹⁷ With the rise of iPads and other tablets, fewer consumers are purchasing hardcopy books and magazines.⁹⁸ In only a few short decades, printed books could very well go the way of the vinyl record—only owned and read by true bibliophiles and collectors.

¶32 *Kirtsaeng* and *ReDigi* have potentially accelerated this process, especially when interpreted together. As Justice Ginsburg mentioned in her dissent, gutting § 602 could have disastrous effects on international publishing.⁹⁹

¶33 With respect to textbooks, international pricing could increase significantly. In order to deter the importation of less-expensive foreign versions of their books to the United States, publishers may be forced to raise prices in foreign markets. In many of these countries, most individuals would be unable to afford these increased costs. For example, the average law school textbook in the United States costs approximately \$200, which amounts to nearly half the average monthly salary for those living in urban China and more than double the average monthly salary of those living in India.¹⁰⁰ By comparison, adjusting these numbers to the median income in Chicago, this would be similar to charging approximately \$2,000 or \$8,500, respectively, for a law school textbook.¹⁰¹

¶34 Higher books prices abroad, in turn, would likely cause an increase in counterfeits. Expensive items that can be reproduced easily and cheaply attract counterfeiters. Moreover, books are especially easy to copy—one original purchase can produce innumerable copies for resale. For example, on Amazon.com, *The Textbook of Spinal*

⁹⁶ *Id.*

⁹⁷ *American Bookshops in Decline, Beyond Borders*, THE ECONOMIST (May 21, 2011, 5:39 PM), http://www.economist.com/blogs/prospero/2011/03/american_bookshops_decline; Michaelle Bond, *For Newspapers, A Less Than Daily Future*, AM. JOURNALISM REV., June–July 2012, available at <http://ajrarchive.org/Article.asp?id=5342> (“Most of the 38 news executives surveyed in a Pew Research Center report released in March predicted that, in five years or so, daily papers would be printed less frequently, maybe just on Sunday.”).

⁹⁸ Bond, *supra* note 97.

⁹⁹ *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1373–74 (2013) (Ginsburg, J., dissenting).

¹⁰⁰ *China’s 2011 Average Salaries Revealed*, CHINA DAILY (July 6, 2012), http://www.chinadaily.com.cn/china/2012-07/06/content_15555503.htm; *India’s Monthly Average Income Rose to Rs 5,130 in 2011–12*, ECON. TIMES (Jan. 31, 2013), http://articles.economicstimes.indiatimes.com/2013-01-31/news/36658764_1_cent-current-prices-capita-income.

¹⁰¹ *Area Median Income Chart*, CITY OF CHICAGO, http://www.cityofchicago.org/city/en/depts/dcd/supp_info/area_median_incomeamichart.html (last visited Nov. 3, 2013). Numbers based off dividing median annual income for one person by twelve, then dividing by two for China comparison and multiplying by two for India comparison. Numbers rounded to nearest \$500.

Surgery sells for \$343.99, a 20% savings from the list price.¹⁰² In contrast, on a popular Chinese website, TaoBao.com, a counterfeit copy of the same textbook sells for \$29.30.¹⁰³

¶35 Thus, on the one hand, employing identical pricing models in the United States and foreign markets is clearly unsustainable. Yet at the same time, if cheaper, foreign-produced textbooks flood the U.S. market, publishers will be forced to lower prices to compete. In short, U.S. textbook publishers are facing a potentially industry-altering dilemma.

¶36 But *ReDigi*—if it becomes binding precedent—could provide a simple remedy for publishers: transition to digital textbooks. By eliminating costs associated with print books, such as production and storage costs, publishers would be able to lower prices and thus avoid pricing themselves out of foreign markets. Additionally, moving to digital textbooks would reduce competition from the used-textbook market. Unlike a print textbook, a digital textbook cannot be sold separately from the iPad to which it was originally downloaded. Assuming most tablet owners are unwilling to sell their tablets at prices that used-book shoppers are willing to pay, an influx of digital textbooks would substantially diminish the used-textbook market. And because of this reduced competition from used-textbook sellers, publishers would be under less pressure to produce new editions as frequently, resulting in additional cost savings. Thus, while *Kirtsaeng* might initially appear pro-consumer, its effects might actually culminate in a panacea for publishers.

B. Contrary to Its Intent, *Kirtsaeng* Will Harm Libraries and Used-Book Sellers

¶37 The *Kirtsaeng* majority attempted to avoid interpreting § 109 in a way that would negatively affect libraries. The majority discussed at length the briefs submitted by the American Library Association and other book-lending advocates, and how limiting “lawfully made under this title” to a geography-based interpretation would expose libraries to copyright infringement lawsuits.¹⁰⁴ While it seems unlikely that parties holding decades-old foreign copyrights would begin scouring U.S. libraries in order to sue for copyright infringement,¹⁰⁵ § 602 nevertheless applies to libraries.¹⁰⁶ But the limitations in § 602 do not apply to “importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain.”¹⁰⁷ This means that U.S. libraries are free to circulate foreign-copyrighted books imported for library use. In contrast, foreign-copyrighted books imported for other reasons and subsequently donated to libraries are subject to § 602’s abrogation of the Doctrine. Practically, however, the likelihood of a

¹⁰² *The Textbook of Spinal Surgery*, AMAZON.COM, <http://www.amazon.com/Textbook-Spinal-Surgery-Keith-Bridwell/dp/0781786207> (last visited Nov. 28, 2014).

¹⁰³ The listed item has since been removed, but counterfeits on Alibaba’s Taobao.com are common. See Sophia Yan, *Alibaba Has a Major Counterfeit Problem*, CNN MONEY (Sept. 11, 2014), <http://money.cnn.com/2014/09/11/technology/alibaba-counterfeit-ipo/> (“In its IPO prospectus, Alibaba warned potential investors that it could come under fire for alleged counterfeit activity, as it did between 2008 and 2011, when the Office of the U.S. Trade Representative labeled Taobao as a ‘notorious marketplace’ with ‘widespread availability of counterfeit and pirated goods.’”).

¹⁰⁴ *Kirtsaeng*, 133 S. Ct. at 1364–66 (majority opinion).

¹⁰⁵ *Id.* at 1389 (Ginsburg, J., dissenting) (“Most telling in this regard, no court it appears, has been called upon to answer any of the court’s ‘horribles’ in an actual case.”).

¹⁰⁶ 17 U.S.C. § 602(a)(3)(C) (2012).

¹⁰⁷ *Id.*

foreign copyright holder not only discovering that a copy of his book ended up in an American library improperly, but then also deciding to sue, is slight.¹⁰⁸

¶38 While the *Kirtsaeng* majority's decision saved libraries from this unlikely threat, it might have exposed them to a far greater one. If *ReDigi* becomes binding precedent, how can libraries adapt in a world where printed books are increasingly becoming obsolete? At first blush, the solution seems clear: rent e-books. But if *ReDigi* and modern e-book licensing practices take hold, libraries will likely find the transition to e-book lending difficult.

¶39 Currently, libraries must enter into licensing agreements if they choose to rent e-books.¹⁰⁹ Instead of owning copies of e-books, libraries pay subscription fees to publishers and are subject to these licensing agreements' terms, such as geographical restrictions on renting specific e-books.¹¹⁰ As opposed to buying one copy of a book and renting it to library-goers indefinitely, libraries must not only pay initial subscription fees for e-books, but also pay to renew an e-book license upon its expiration.

¶40 As e-books become more popular, this licensing system will likely impose further burdens on libraries. Publishers are increasingly concerned about monetizing e-book distribution methods, prompting various licensing restrictions on library-rented e-books.¹¹¹ For example, HarperCollins limits the number of times a particular copy of an e-book can be checked out to twenty-six.¹¹² Additionally, if the *ReDigi* logic finds widespread acceptance, publishers will gain more bargaining power when negotiating with libraries because, in light of the financial benefits of licensing discussed *supra* Part IV(a), fewer incentives would exist for publishers to agree to a system where libraries can purchase, rather than license, e-books.

¶41 As far as *Kirtsaeng* helps speed the decline of print media, without a more flexible Doctrine, the decision leaves libraries in a precarious position. It seems unlikely that an owner of a copyright in a foreign-produced book would pursue legal action against a library for lending a copy of her book without first obtaining consent. However, the numerous financial benefits stemming from e-book licensing agreements may prompt publishers to be more protective of their rights in digital media, posing a far more realistic and costly burden on libraries.

C. *Kirtsaeng* and *ReDigi* Will Exacerbate the Problems of Counterfeiting and Piracy

¶42 Prohibiting the sale of used digital files will uniquely affect the market for digital-media products. Traditionally, retail purchasers buy a book or CD at full price and then sell it at a significantly reduced, used-good market rate.¹¹³ This not only permits a buyer to recoup a portion of the initial price when he no longer wants an item, but also allows those

¹⁰⁸ *See id.*

¹⁰⁹ Dahleen Glanton, *Publisher Puts New Limits on Library E-Books*, CHI. TRIB. (Mar. 6, 2011), http://articles.chicagotribune.com/2011-03-06/news/ct-met-library-e-books-20110306_1_e-books-harpercollins-library-users.

¹¹⁰ Benedicte Page & Helen Pidd, *Ebook Restrictions Leave Libraries Facing Virtual Lockout*, THE GUARDIAN (Oct. 25, 2010), <http://www.theguardian.com/books/2010/oct/26/libraries-ebook-restrictions>.

¹¹¹ Glanton, *supra* note 109.

¹¹² *Id.*

¹¹³ *See* Cary T. Platkin, *Comment, In Search of a Compromise to the Music Industry's Used CD Dilemma*, 29 U.S.F. L. REV. 509, 525 (1995).

who either cannot afford or are unwilling to pay full price the option to purchase the used good.¹¹⁴ Under *ReDigi*, however, selling used digital files becomes prohibitively expensive.¹¹⁵ For example, few people are willing to sell a computer or iPad because they no longer want a Lady Gaga album purchased in 2009.

¶43 Studies on the psychology of consumers who buy counterfeit or pirated products show how stifling the used-good market might affect consumer activity. With counterfeit, tangible goods, buyers understand they are obtaining a lower quality product, but choose to purchase the counterfeit version because it costs less than the genuine product.¹¹⁶ The difference between consumers who buy counterfeit goods versus legitimate goods is usually that a shopper's economic concerns outweigh her aversion to risk.¹¹⁷ Thus, if a counterfeit's quality increases while the price of the legitimate good rises, more consumers will be inclined to buy a counterfeit instead of the legitimate good.

¶44 Moreover, with most pirated digital goods, people receive the exact same product without paying market price. As a result, digital copyright holders offset these financial losses by increasing market prices, which in effect penalizes those consumers who act lawfully.¹¹⁸ Yet many choose to ignore this disparate consumer burden, instead justifying piracy as a response to wealthy copyright holders' demands for remuneration.¹¹⁹ Referred to as equity theory, commentators identify this concept as one of the primary causes of piracy¹²⁰: "[W]ith regard to digital media, . . . pirates perceive the prices for digital goods to be high, and view this as inequitable, particularly given the economic success of some of the copyright holders. Pirates use this disparity to justify their illegal behavior."¹²¹ Further, the intangible nature of digital goods emboldens those adhering to this rationale because pirating imposes few obvious costs. Pirating does not deprive anyone from

¹¹⁴ *Id.* at 528.

¹¹⁵ See *Capitol Records, LLC v. ReDigi Inc.*, 934 F. Supp. 2d 640, 656 (S.D.N.Y. 2013) (suggesting the permissibility of selling the hardware upon which a digital file was downloaded).

¹¹⁶ Gail Tom et al., *Consumer Demand for Counterfeit Goods*, 15 *PSYCHOL. & MKTG.* 405, 412 (1998) ("Consumers who stated a preference for counterfeit goods indicated greater satisfaction with the durability/quality of legitimate versions of the product than with the counterfeit version and greater satisfaction with the prize [sic] of counterfeit goods than legitimate goods.").

¹¹⁷ *Id.* at 414–16.

¹¹⁸ See STEPHEN E. SIWEK, INST. FOR POLICY INNOVATION, *THE TRUE COST OF SOUND RECORDING PIRACY TO THE U.S. ECONOMY* 14 (2007), available at http://www.ipi.org/docLib/20120515_SoundRecordingPiracy.pdf. Piracy's impact extends to all corners of the U.S. economy:

[T]he U.S. sound recording industries are now sustaining approximately \$5.33 billion in losses as a result of global and U.S. piracy. In addition, U.S. retailers are losing another \$1.04 billion. These estimates suggest total "direct" losses to all U.S. industries from music piracy that exceed \$6.37 billion. These direct losses then cascade through the rest of the U.S. economy and the losses of economic output, jobs and employee earnings "multiply." Based on the analyses set forth in this paper, because of music piracy, the U.S. economy loses a total of \$12.5 billion in economic output each year.

Id. at 14–15.

¹¹⁹ Charles W. L. Hill, *Digital Piracy: Causes, Consequences, and Strategic Response*, 24 *ASIA PAC. J. MGMT.* 9, 12 (2007).

¹²⁰ *Id.*

¹²¹ *Id.*

receiving the same file, and for most media-users, any monetary impact seems infinitesimal. Ultimately, it is easy for many to believe, albeit erroneously, that digital piracy is a victimless crime.

¶45 These factors combine to create an environment where black markets can flourish. Coupled with the oft-subscribed to equity theory, if quality and risk are all that typically keep consumers from buying counterfeit goods, what will happen when quality increases, risk decreases, and companies refuse to allow those who have played by the rules to resell their goods? Discussed *infra* Part V, a more flexible Doctrine could alleviate some of these tensions and potentially reduce incentives for black markets to develop.

V. A SOLUTION

¶46 When applied to modern technology, the Doctrine's flaws are clear. How to resolve these shortcomings is far less apparent. Part V discusses the necessary flexibility of an adequate solution, and analyzes the considerations and challenges to crafting this malleable rule.

A. The Need for a More Flexible Rule

¶47 A more flexible rule governing copyright law is needed to rectify the problems with the current Doctrine. The *ReDigi* court aptly noted: “[T]he [F]irst [S]ale [D]octrine was enacted in a world where the ease and speed of data transfer could not have been imagined.”¹²² In short, the Doctrine is outdated. Although applying the old rule to both print and digital media raises various concerns, this Note does not argue for the Doctrine's abandonment. Instead, Congress should draft a rule based on intent and practical effect rather than the technology available at the time. With technology's increasing prevalence in daily life, media-users need to maintain some semblance of control over their media property. But a new, rigid rule granting media-users control over digital property could easily become as analogously unworkable as the current Doctrine. Thus, an adequate solution must be sufficiently flexible to apply consistently, regardless of the type of technology in question.

B. Considerations and Challenges

¶48 Developing a more flexible rule requires balancing various interests. On the one hand, the rule needs to be flexible enough to adapt to changing technology. On the other hand, the rule needs to provide predictability, such that copyright holders and media-users have a clear understanding of their rights and responsibilities. This Section explores the intent, effect, and fairness considerations that Congress should take into account when revising the Doctrine, as well as the challenges of drafting a rule that adapts to quickly changing technology.

1. Intent

¶49 Two aspects of intent are pertinent to drafting a more suitable rule: congressional intent and the intent of the person violating the law. Congress needs to make its intent

¹²² Capitol Records, LLC v. ReDigi Inc., 934 F. Supp. 2d 640, 656 (S.D.N.Y. 2013).

textually clear in the law itself, which in turn will shape how the law is applied. Additionally, the law should include a culpability element, aiming to punish those who knowingly exploit the law to take advantage of copyright owners, not those who use digital products in accordance with traditional fair-use standards.

¶50 Although Congress intended the provisions of the DMCA to “serve as technological adjuncts to the exclusive rights granted by copyright law,”¹²³ the DMCA prevents certain uses of circumvention technologies that otherwise constitute fair use.¹²⁴ If the law considered intent, however, media-users would no longer be liable for innocent conduct and anti-circumvention technology would actually improve. Although Congress attempted to draft the DMCA in a manner that would not “chill[] legitimate scientific encryption research,” the exemption for beneficial research is criticized by many “for being both too narrow and too vague.”¹²⁵ By permitting independent researchers to work more freely on breaking anti-circumvention software, software companies would gain a better understanding of how pirates exploit their software. Software companies would then be able to improve anti-circumvention technology accordingly.

¶51 This culpability element would not negate liability for those using anti-circumvention software to pirate digital media. Crucially, this would allow courts to judge the merits of a case without having to caution against negatively affecting unrelated parties acting in good faith. For instance, the Court would likely have reached a different result in *Kirtsaeng* if a culpability requirement had been in place. The Court could have found Kirtsaeng, who was clearly looking to profit by exploiting Wiley’s international distribution and pricing, to be in violation of the law, without fearing that the holding would negatively affect libraries. Unforeseen and complex issues will undoubtedly surface as technology progresses, which necessitates a sufficiently flexible rule to effectuate the Doctrine’s intent and provide adequate protection for media-users and copyright holders.

2. Effect

¶52 Any revisions to the Doctrine need to weigh the potential effects on copyright owners, especially whether the resulting societal benefits will offset the reduced incentive to innovate. After all, Congress’s constitutional mandate is “[t]o promote the Progress of Science and useful Arts.”¹²⁶ Thus, the law should not be over-inclusive, especially for trivial matters. For example, the law should provide for a different outcome in *Kirtsaeng* without causing libraries to worry about the origins of every foreign book in their collections. But at the same time, trivial matters can add up, specifically when seemingly inconsequential effects accumulate to inhibit a law’s efficacy. Stated differently, the law needs to provide sufficient copyright protection to prevent the steady attrition of authors’ exclusive rights.

¶53 But finding this balance poses myriad challenges. If courts allow copyright holders to pursue trivial claims, a quagmire of copyright infringement lawsuits would likely result, cluttering court dockets and stymieing judicial economy. The complexities of rapidly

¹²³ U.S. COPYRIGHT OFFICE, THE DIGITAL MILLENNIUM COPYRIGHT ACT OF 1998 U.S. COPYRIGHT OFFICE SUMMARY 3 (1998), available at <http://www.copyright.gov/legislation/dmca.pdf>.

¹²⁴ Liu, *supra* note 39, at 509–10.

¹²⁵ Liu, *supra* note 39, at 509–10, 511 n.37.

¹²⁶ U.S. CONST. art. I, § 8, cl. 8.

changing technologies exacerbate this problem, where seemingly insignificant claims might later have unanticipated and sweeping consequences. Additionally, courts would need to approach each claim on a case-by-case basis, calculating the likely effects on the copyright holder in each instance. Consequently, with numerous courts across the country interpreting the new copyright statute, developing a cohesive body of case law will be difficult—that is, in the initial absence of Supreme Court guidance—without a sufficiently explicit statutory mandate. Indeed, because of the fact-specific nature of copyright infringement lawsuits and the challenges of interpreting the law in light of evolving technology, it might take many years of applying the new Doctrine before judicial consensus exists as to what constitutes a trivial versus problematic claim. Given these points, resolving the Doctrine’s shortcomings likely requires sufficiently tailored legislation that courts interpret in a functionalist, rather than formalist, manner.

3. Fairness

¶154 A revised Doctrine also needs to balance competing fairness interests between copyright holders and media-users. Although recalibrating intellectual property law to address changed circumstances often requires weighing various fairness considerations,¹²⁷ digital media’s uniquely replicative nature distinguishes it from products with qualitatively distinct forms. As digital technology improves, fewer discernable differences in quality between “new” and “used” media exist. For example, while someone might choose to buy a new CD rather than a used one for fear of purchasing a scratched disc, this problem does not arise in the digital music context.

¶155 Because a digital file can be copied *ad infinitum* without losing its quality, treating digital-media resellers like other resellers is unfair to copyright holders in digital media.¹²⁸ Few incentives exist to buy music new when a purchaser can get the same music file at a significant discount the next day. Accordingly, many argue that restricting the Doctrine to non-digital goods aligns with the Doctrine’s intent:

[T]he purpose of the first-sale exception is not to give unlimited ability to individuals to distribute their copies of a work, but rather to permit individuals to distribute copies they lawfully own when such distribution would not conflict with the normal exploitation of the work or adversely affect the legitimate interests of the copyright owner in that work.¹²⁹

This argument clearly makes sense in some cases, such as those situations imagined by § 109(b), in which the owner of a particular copy rents that copy to others for commercial gain.¹³⁰ On the other hand, prohibiting a consumer from reselling a purchased good solely because it exists on a different medium conflicts with the fundamental fairness

¹²⁷ See, e.g., 17 U.S.C. § 107 (2012); RESTATEMENT THIRD OF UNFAIR COMPETITION § 28 (1995) (describing the affirmative defense of fair use in trademark law if “the actor has used the term fairly and in good faith”).

¹²⁸ Keith Kupferschmid, *Lost in Cyberspace: The Digital Demise of the First-Sale Doctrine*, 16 J. MARSHALL J. COMPUTER & INFO. L. 825, 848 (1998).

¹²⁹ *Id.* at 847.

¹³⁰ See *supra* notes 13–15 and accompanying text.

considerations the original Doctrine embodies.¹³¹ From the album owner’s perspective, the sale is the same whether the album is on a vinyl record, CD, or an MP3. An individual purchasing a digital song is not asking for unlimited distribution rights to that song, but rather the opportunity to resell the original product as if she had bought the song on a tangible medium.

¶56 Additionally, restricting the Doctrine’s application to non-digital goods would inhibit access to digital media for those who cannot afford to pay full price. And, as discussed *supra* Part IV(c), piracy increases when consumers feel they are being treated unfairly. For a revised law to avoid these issues, it will need to incentivize parties to both create and purchase copyrighted material, while allowing consumers to buy and sell copyrighted goods on the secondhand market.

C. A Recent Example: *Bowman v. Monsanto*

¶57 *Bowman* presented the Supreme Court with an interesting example of how advancing technology raises issues that were unanticipated when a law was first drafted. While the Court’s decision does not directly address copyright law, it nevertheless illustrates how a more flexible rule might mitigate problems resulting from the application of old law to new technology, specifically by considering intent, effect, and fairness.

¶58 In *Bowman*, a farmer had purchased genetically modified soybeans from Monsanto.¹³² These “Roundup Ready” beans are resistant to certain herbicides, allowing farmers to use herbicides on crops to kill weeds without harming the crops.¹³³ Farmers buy the beans under a special license, which permits them to harvest the beans only once.¹³⁴ Under the license, farmers can sell the beans, but not replant them.¹³⁵ Although *Bowman*, the farmer, adhered to these terms in the past, he bought seeds from a local grain elevator where he knew other farmers had deposited already-harvested Roundup Ready beans.¹³⁶ *Bowman* then planted these beans, applied the herbicide, and collected the seeds from the surviving plants.¹³⁷ In this way, he was able to harvest multiple crops of Roundup Ready beans without purchasing them through Monsanto.¹³⁸ When Monsanto discovered this practice, it sued *Bowman* for patent infringement.¹³⁹

¶59 *Bowman* raised the affirmative defense of patent exhaustion, claiming that Monsanto could not control his use of the beans because he had acquired them through a prior authorized sale.¹⁴⁰ More specifically, *Bowman* argued that he had not *made* the new

¹³¹ “The doctrine prevents copyright owners from restraining the free alienability of goods.” J.D. Schneider, Kirtsaeng: *Copyright’s “First Sale” Doctrine and Foreign-Manufactured Goods*, COLO. LAW., Dec. 2013, at 69.

¹³² *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1764–65 (2013). “Under the doctrine of patent exhaustion, the authorized sale of a patented article gives the purchaser, or any subsequent owner, a right to use or resell that article. Such a sale, however, does not allow the purchaser to make new copies of the patented invention.” *Id.* at 1764.

¹³³ *Id.* at 1764.

¹³⁴ *Id.*

¹³⁵ *Id.*

¹³⁶ *Id.* at 1765.

¹³⁷ *Id.*

¹³⁸ *Id.*

¹³⁹ *Id.*

¹⁴⁰ *Id.* at 1766.

soybeans; rather, the beans had “naturally self-replicate[d],” creating replicas of Monsanto’s patented beans.¹⁴¹ As a result, Bowman claimed he had used the beans in accordance with Monsanto’s license agreement because their reproduction was merely incidental to his otherwise permissible use thereof.¹⁴²

¶160 But the Court disagreed, stating that Bowman’s intentional actions were precisely how one would make a new plant.¹⁴³ The Court noted that eating, selling, or feeding the beans to livestock was allowed under the patent exhaustion doctrine.¹⁴⁴ Bowman infringed Monsanto’s patent by actively sorting through and determining which beans were the patented ones and then planting and harvesting the patented beans to avoid buying them for the following harvest season.¹⁴⁵ The Court found that “the exhaustion doctrine does not enable Bowman to make *additional* patented soybeans without Monsanto’s permission.”¹⁴⁶ The Court further reasoned that if patent exhaustion was a viable defense, Monsanto’s patent would provide few benefits.¹⁴⁷ While Monsanto would receive compensation for the first harvest, farmers would have no reason to continue buying from Monsanto.¹⁴⁸ By continuing to use the licensing agreements, farmers benefited from the beans and Monsanto was compensated for its innovation through additional sales of Roundup Ready.¹⁴⁹

¶161 Perhaps most important, the Court explicitly limited its holding.¹⁵⁰ The Court recognized the unique nature of the beans and that “such inventions are becoming ever more prevalent, complex, and diverse. In another case, the article’s self-replication might occur outside the purchaser’s control. Or it might be a necessary but incidental step in using the item for another purpose.”¹⁵¹ The Court acknowledged the challenges of applying static legal doctrines to modern technology and the danger of overly broad opinions producing absurd results.¹⁵² While this case involved a patent, the Court’s analysis nevertheless illustrates what a court should consider when addressing intellectual property rights in new technology. Applying a similar approach to copyright cases should produce similarly just results for both copyright holders and consumers.

D. A Functionalist Solution

¶162 Both the Court’s application of patent law and the type of licensing agreement used in *Bowman* provide guidance in the digital media context. Analogous to easily copied digital files, the Roundup Ready beans in *Bowman* could self-replicate, which prompted Monsanto to devise an agreement restricting the use of the seeds after the first harvest.¹⁵³ The Court, recognizing the nuances of this innovative technology, refrained from

¹⁴¹ *Id.* at 1768–69.

¹⁴² *See id.* at 1768–69.

¹⁴³ *Id.* at 1766–67.

¹⁴⁴ *Id.* at 1766.

¹⁴⁵ *Id.* at 1766–67.

¹⁴⁶ *Id.* at 1766.

¹⁴⁷ *Id.* at 1767.

¹⁴⁸ *Id.*

¹⁴⁹ *Id.* at 1768

¹⁵⁰ *Id.* at 1769.

¹⁵¹ *Id.*

¹⁵² *See id.*

¹⁵³ *See id.* at 1764–65.

overextending its decision, focusing instead on Bowman's intentionally exploitative conduct.¹⁵⁴ And most pertinent to our analysis, the Court acknowledged that necessary but incidental copies might be permissible in certain circumstances, which mirrors the incidental copies necessary to selling used digital files through an ReDigi-like platform.¹⁵⁵ However, unlike the Court in *Bowman*, the *ReDigi* court adopted a formalist approach to find that the incidental digital copies violated copyright law.¹⁵⁶

¶63 Further, Monsanto's licensing agreement provides a potential model for agreements between digital copyright holders and media-users. For example, online music could be sold with a license that allows media-users to sell both the digital files and the incidental copies necessary to transferring a song to other consumers. Similar to the reasoning behind fair use and copyright term limits, these licensing arrangements would provide a workable framework that both protects copyright holders from exploitative conduct and promotes the Doctrine's fundamental principles. Specifically, a license could allow for general fair use of the digital files, while prohibiting owners from reselling the digital files for a certain length of time. Following this reselling-prohibition period, media-users would be permitted to sell the digital file through a system similar to the one found in *ReDigi*, provided that media-users delete the original files.

¶64 Regardless of any licensing arrangements, the most important aspect of any solution hinges on whether courts adopt a functionalist approach when applying the Doctrine. The formalistic application of antiquated laws is bound to produce absurd results. Copyright law needs to be sufficiently flexible to adapt to new circumstances and specific situations. In *Bowman*, for instance, the farmer's intent was clear in that he devised a plan to reproduce the patented seeds and reap the benefits of Roundup Ready without paying Monsanto additional compensation.¹⁵⁷ The Court reasoned that planting the seeds amounted to "making" new seeds.¹⁵⁸ But what if Bowman had simply bought the seeds from the grain elevator and planted them without spraying the herbicide? In that case, he would have no way of knowing which, if any, of the plants resulted from Roundup Ready seeds, and thus would not have received any unfair benefits. In other words, would the Court still reason that he "made" the seeds?

¶65 Only a dynamic approach can hope to resolve this inevitable uncertainty. Courts need to be able to adapt in this ever-evolving context and apply the law fairly, equitably, and predictably. With technology's exponential progression, a rigid, formalist approach to copyright law likely precludes the availability of an adequate solution.

VI. CONCLUSION

¶66 The First Sale Doctrine is too rigid in the face of modern technology. A formalist application of the Doctrine produces absurd results, harming both copyright holders and consumers. A more flexible rule and functionalist approach is needed as technology continues to advance in ways that could not have been predicted when the Doctrine was first introduced. By considering intent and effect, and taking a more functionalist approach

¹⁵⁴ *See id.*

¹⁵⁵ *See id.*

¹⁵⁶ *Capitol Records, LLC v. ReDigi Inc.*, 934 F. Supp. 2d 640, 649 (S.D.N.Y. 2013).

¹⁵⁷ *See id.* at 1768–69.

¹⁵⁸ *See id.* at 1767–69.

to new issues arising in copyright law, courts can apply the Doctrine in a way that is more flexible, fair, and consistent; one that sufficiently balances the needs of consumers and copyright holders as technology continues to progress in innumerable ways.

