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RESALE OF DIGITAL WORKS UNDER COPYRIGHT LAWS: A LEGAL AND ECONOMIC ANALYSIS

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ABSTRACT

Through the first sale doctrine, copyright laws around the world establish for an owner of the copy of a copyrighted work the right to resell, lend, donate, and, in some cases, even to rent the copy. Under the doctrine, the copyright holder loses any control over the future distribution of a copy of the work after the sale of that copy. The purchaser of the copy is free to treat it like any other property she possesses. She can transfer it to anyone else through a resale or donation. The doctrine is part of the balance copyright law strikes between the interests of copyright holders and those of purchasers of the copies. While the right still exists in law, in most digital works copyright holders and their distributors deprive purchasers of this right through digital right management (DRM) technologies and contractual terms. By establishing the continued justifications of this right in the context of digital works, the paper argues for its preservation and recommends for necessary legislative changes to guarantee the application of the first sale doctrine to digital works.

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RESALE OF DIGITAL WORKS UNDER COPYRIGHT LAWS: A LEGAL AND ECONOMIC ANALYSIS

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I. INTRODUCTION

Copyright laws around the world recognize the right an owner of a copy of a copyrighted work has to resell, lend, donate, and, to some extent, even to rent the copy.¹ This right exists also in other areas of intellectual property law such as patent and trademark.² In the context of copyright, the right is known as either ‘copyright exhaustion’ or ‘first sale doctrine’.³ After the first sale of a copy, the control of the copyright holder⁴ over the future distribution of that copy is exhausted. The purchaser of the copy is free to treat it like any other property she possesses. She can transfer it to someone else through a resale or donation. She is free to lend the copy to others with or without any benefits in return. The doctrine is part of the balance copyright law attempts to make between the interests of copyright holders and those of purchasers of the copies.⁵ The doctrine is based on the law’s general abhorrence towards any restraint on the alienation of one’s personal property.⁶ While these rights still exist in law, in most digital works copyright holders and their distributors have taken away these rights from the users of digital copies through digital right management (DRM) technologies and contractual terms. This paper argues for the preservation of this important right of copyright users in digital works. This paper is divided into four parts. Part I briefly discusses the legal and technological means

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¹ See 17 U.S.C. §§ 106(3), 109(b)(1)(A) (2018); Copyright Act, R.S.C., 1985, c. C-42, art. 3(1)(h)(i), (Can.); Law on Copyright and Neighboring Rights, Royal Decree 65, art. 6(d), (2008 Oman). The purchaser of a copy does not have the right to rent the copy containing computer program or musical sound recording. The right to rent is given exclusively to the copyright holder in the sound recordings.

² The purchaser of a patented product or trademarked product can resell the purchased product without any permission from the holder of patent or trademark.

³ See Jeremy de Beer & Robert Tomkovicz, *Exhaustion of Intellectual Property Rights in Canada*, 25 CANADIAN INTELL. PROP. REV. 3, 3-4 (2009), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1636425. The paper will use the words ‘first sale doctrine’ and ‘copyright exhaustion’ interchangeably.

⁴ We use the words ‘copyright holders’ to mean both authors/artists of copyrighted works and their publishers/producers. While copyright initially lies with authors and artists, in many cases authors and artists would assign their rights to publishers and producers as part of publication or production agreement.

⁵ Guy A. Rub, *Rebalancing Copyright Exhaustion*, 64 EMORY L. J. 741, 743-744 (2015), <http://law.emory.edu/elj/content/volume-64/issue-3/articles/rebalancing-copyright-exhaustion.html>.

⁶ R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C. L. REV. 577, 580 (2003), <https://lawdigitalcommons.bc.edu/cgi/viewcontent.cgi?referer=https://www.google.com/&httpsredir=1&article=2233&context=bclr>.

copyright holders use to restrict resale or transfer of a digital copy, and the legality of such means. Part II takes up the detailed arguments in favor of the application of the first sale doctrine to digital copies, while Part III criticizes and rebuts the arguments against applying the doctrine to digital works. Finally, Part IV recommends the necessary legislative changes to guarantee the application of the doctrine to digital works.

II. BACKGROUND

A. Restrictions on the Transfer of Digital Works

Copyright holders can and, in most cases, do prevent any transfer or resale of a digital work from the purchaser of a copy to someone else. This is usually done through two means: one is technological and the other is legal. The technological means involves the use of digital right management (DRM) technologies to restrict any transfer of a digital work from a purchaser's account or device to another person's account or device. The legal means consists of the inclusion of contractual terms in the initial transaction either to characterize the transaction as a 'license,' or to expressly prohibit the resale or transfer of the digital copy if such transfer is possible in the first place. Many contracts involving the access to a digital work characterize the transaction as a 'license' instead of 'purchase'.⁷ As licensee, they are restricted from the transfer of the digital copies of a copyrighted work. Sometimes the duration of such license can be the lifetime of the 'licensee'. This practice is more common in the context of software.⁸ Preventing resale of the used and older versions of software allows copyright holders to charge very high price for all new users without any opportunity for these users to get the lower-priced older versions from the secondary market.⁹

In general, the current legislation and case law permit both sets of technological and legal measures copyright holders use to prevent the application of the first sale doctrine to digital works. As for the technological means, circumvention of DRM technologies, even for some legitimate purposes such as the resale of a purchased copy, would be illegal under the laws of most countries.¹⁰ The copyright or related laws generally prohibit the circumvention of technological measures used by copyright holders to restrict any actions of users "which are not authorized by the authors concerned, or permitted by law."¹¹ Even if an action such as the resale of a

⁷ See Christiana Mulligan, *Copyright without Copying*, 27 CORNELL J.L. & PUB. POL'Y 469, 472-473 (2017), <https://scholarship.law.cornell.edu/cgi/viewcontent.cgi?article=1473&context=cjlp>.

⁸ Ariel Katz, *The First Sale Doctrine and the Economics of Post-Sale Restraints*, 2014 BYU L. REV. 55, 128 (2014), <https://digitalcommons.law.byu.edu/cgi/viewcontent.cgi?article=2912&context=lawreview>.

⁹ *Id.*

¹⁰ See 17 U.S.C. § 1201(a)(A)(1) (2018); Pub. L. No. 105-304, 112 Stat. 2860 (1998) (codified in 17 U.S.C. §§ 1201-1205, §§ 41.1(1)(a)(b)(c)); Copyright Act, R.S.C., 1985, c. C-42, (Can.); Law on Copyright and Neighboring Rights, Royal Decree 65, (2008 Oman).

¹¹ See World Intellectual Property Organization Copyright Treaty art. 11, Dec. 20, 1996, 36 I.L.M. 65 (1997) [hereinafter WIPO]. Similar wordings also appear in World Intellectual Property

digital copy by its purchaser would be legal under copyright laws,¹² to circumvent a technological means preventing such resale would be illegal if not authorized by the copyright holder. The same laws also ban the manufacture, import, sale, distribution, and rental of any device or service, the primary purpose of which is to circumvent effective technological measures.¹³ Copyright holders commonly use such technological measures to prevent any transfer of a digital copy by an initial purchaser to others.

As for the legal means characterizing the transaction involving digital works as a ‘license,’ or restricting further transfer of a digital copy, courts generally enforce such contractual terms. For example, in the American case of *Vernor v. Autodesk, Inc.*,¹⁴ the Ninth Circuit held that if a transaction were termed as a license rather than a sale, then any subsequent transfer would require permission from the grantor of the license. The Second Circuit seems to have adopted a better approach in *Krause v. Titleserv, Inc.*,¹⁵ where the court looked at the nature of the transaction such as its duration, or the rights of a “licensee,” to determine whether the alleged transaction was a license or transfer of ownership. The European Union Court of Justice (EUCJ) also adopted a similar approach. The EUCJ held that if the license were for an indefinite period of time, it would be a sale rather than a license.¹⁶ Accordingly, the EUCJ allowed the transfer of software bought under a license with no time limit in light of the copyright exhaustion or first sale doctrine. The EUCJ held that the doctrine of exhaustion applied to the digital copy of a software. This decision may not pose a strong hurdle for copyright holders to digital works if the duration of license is less than the lifetime of the transferee. However, most digital works today have no time limit for a customer to use and the transactions should be considered a “purchase” rather than a “license,” regardless of the term in actual contracts.¹⁷

B. Arguments in Favor of Resale of Digital Works

There are various arguments for the preservation of first sale doctrine in digital works. The most important among them is that the doctrine increases the overall utility of users of copyrighted works in more than one way and, in the process, raises the net social utility. Other arguments supporting the doctrine in digital works

Organization Performances and Phonograms Treaty art. 18, December 20, 1996, 36 I.L.M. 76 (1997). As the primary concern of these conventions is the protection of authors’ and performers’ rights in the context of digital technology and the Internet, they are known together as the ‘Internet Treaties.’ See also 17 U.S.C. §§ 1201-1205, §§ 41.1(1)(a)(b)(c); Copyright Act, R.S.C., 1985, c. C-42, (Can.); Law on Copyright and Neighboring Rights, Royal Decree 65, art. 40(1), (2008 Oman) (for national law implementing the listed treaties).

¹² See 17 U.S.C. § 109 (2018).

¹³ See Law on Copyright and Neighboring Rights, Royal Decree 65, art. 40(2), (2008 Oman); Copyright Act, R.S.C., 1985, c. C-42, art. 41.1(1)(a)(b)(c), (Can.).

¹⁴ *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1116 (9th Cir. 2010).

¹⁵ *Krause v. Titleserv, Inc.*, 402 F.3d 119, 122 (2d Cir. 2005).

¹⁶ Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.* 2012 E.C.R. I-0000 (available at <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:62011CJ0128>).

¹⁷ See generally *About ebooks*, EBOOKS.COM, <https://www.ebooks.com/information/customerlicense.asp> (last visited Aug. 12, 2018) (This is definitely the case with e-books sold in Amazon, e-Books.com, Barnes & Noble and Kobo.).

include preservation of a work, saving of information cost, and the privacy of users who purchase used digital works. We elaborate these arguments below.

1. Increased Utility for Users

First, people who could not or would not buy a copyrighted work because of the monopoly price the copyright holder charges may purchase the work at a lower price in a resale transaction. In the absence of a secondhand market for digital works, the price of these works may remain high due to the lack of any competition from the secondhand market.¹⁸ People who value a copyrighted work above its price in the secondhand market but below the price charged by the copyright holder would not buy the work. For example, if ten people derive different values from reading a book such as \$1, 2, 3, and so on up to 10. The total benefits they would derive are \$55 (1+2+3+...10). If the copyright holder charges \$5 for the book, only people who value the book at \$5 and above would buy it. The total benefits they would derive are \$45 (5+6+7...10). The people who derive utility less than \$5 from reading the book would not buy it, and the total utility loss from their non-use would be \$10.¹⁹ This loss can be prevented at least partially if initial purchasers can sell their copies later at a lower price in the secondary market. In the absence of a first sale doctrine to digital works, or the inability to resell due to technological barriers, such resale would not happen. In such cases, the loss of utility for these buyers would be a social loss if not offset by any additional gains obtained by the copyright holders.²⁰ Empirical research shows that 84 percent of the purchasers of used books in Amazon would not have purchased the new books due to their high price set by the copyright holders and publishers.²¹

Second, a potential buyer would derive more utility from a product with the option to resell it after her use, than the utility she derives from the same product if she could not resell it. A purchaser may be willing to pay an even higher price for a

¹⁸ See Eric M. Hinkes, *Access Controls in the Digital Era and the Fair Use/First Sale Doctrines*, 23 SANTA CLARA COMPUT. & HIGH TECH. L. J. 685, 701 (2007); Aaron Perzanowski & Jason Shultz, *Digital Exhaustion*, 58 UCLA L. REV. 889, 894 (2011), <https://scholarship.law.berkeley.edu/cgi/viewcontent.cgi?article=2246&context=facpubs>. It is also possible to argue that in the absence of the first sale doctrine the price of the digital goods would be cheaper because the copyright holders would be able to sell more copies and thus reduce the price for each copy sold. Which of these two possibilities occur in an actual case in the absence of secondary market for digital works may depend on many other factors, such as the target group of a digital work, cross elasticity of demand for a digital work, and reputation of an author or publisher.

¹⁹ STEVEN SHAVELL, *FOUNDATIONS OF ECONOMIC ANALYSIS OF LAW* 112 (2004) (reference for an example).

²⁰ See N. GREGORY MANKIW, *PRINCIPLES OF MICROECONOMICS* 90-91 (2008). The copyright owners of digital goods may derive higher utility or producer surplus from their copyrighted works by charging higher price in the absence of secondary market. If the demand for a digital work is elastic, such higher price may ultimately reduce the total revenue. This in turn may lead to price reduction of the work. Whether the demand is elastic or inelastic depends on various factors such as availability of close substitutes, whether the product is necessity or luxury, time horizon etc.

²¹ Anindya Ghose, Michael D. Smith & Rahul Telang, *Internet Exchanges for Used Books: An Empirical Analysis of Product Cannibalization and Welfare Impact*, 17 INFO. SYS. RES. 3, 5 (2006), <https://pubsonline.informs.org/doi/10.1287/isre.1050.0072>.

digital work with the right to resell,²² indicating higher utility for the purchaser from such work. This is simply because the effective price of a work for the purchaser would be much less than the price she initially pays. The effective price would be equal to the price of the new copy the purchaser pays minus the price she obtains from the resale of the same work.²³ Instead of completely limiting the ability to resell, copyright holders may at least provide prospective buyers the options to purchase a digital work both with and without the right to resell. Copyright holders may charge higher price for a work with the option to resell than the price for the same work without such option. Such options will preserve the right to resell if the price difference between the two options is reasonable.²⁴ However, copyright holders may charge such a high price for a copy with the option to resell that the exercise of the right may become practically useless.²⁵

Third, transfer of product from one person to another usually increases the utility of both the transferor and the transferee. A transfer or trade happens when the buyer values a product more than the seller. Such a transfer is thus mutually beneficial.²⁶ This is one of the justifications for inclusion of the right to transfer in the bundle of rights the owner of a property usually has. If a transfer or trade is beneficial, its benefit should not be limited to the instances of sale from copyright holders to initial purchasers. The purchasers of copies also should be able to resell their purchased copies. After reading a book, the value of the book to its purchaser may decrease. Thus, the purchaser should be able to sell the book to someone else who values it more than the initial purchaser. Even though the second purchaser can buy the book directly from the copyright holder, the copyright holder may not reduce the price to an amount the second purchaser is willing to pay. On the other hand, the first purchaser may sell the book at such a price, leading to a mutually beneficial and utility-enhancing transaction between the two. In the absence of a first sale doctrine in digital works, this transaction would not occur. The loss of utility from this potential transaction would be a social loss without any countervailing benefits.

Finally, preventing transfer of digital works may reduce the utility of an altruistic purchaser. For example, after reading an e-book, the purchaser may want to donate the book to a library, or to a less fortunate person out of altruism. The feeling or the utility ('warm glow')²⁷ the donor derives from such transfer counts in

²² See Katz, *supra* note 8, at 136.

²³ See Reese, *supra* note 6, at 587.

²⁴ A reasonable price for a copy with the option to resell should be less than double the price of a copy with no such option. Suppose the price of a copy with no option to resell is \$5 and the price of a copy with the option is \$9. Here the difference is reasonable. In such case, a purchaser may still buy the copy with the option to resell at a price of \$9 in the hope that she can resell the copy after her use at a price above \$4 but below \$5, the price of a new copy with no option to resell. It is possible to show that even if the price of a copy with the option to resell is more than double the price of a copy with no such option, people may still buy the copy with the right to resell in the hope of reselling the used copy at a price higher than the price of a new copy with no option to resell. A prospective buyer may pay higher price for the used copy with the option to resell further than the price of a new copy with no such option.

²⁵ See the discussion in the above note.

²⁶ See generally SHAVELL, *supra* note 19, at 18-20.

²⁷ See James Andreoni, *Impure Altruism and Donations to Public Goods: A Theory of Warm-Glow Giving* 100 THE ECON J. 464, 464 (1990), <https://econ.ucsb.edu/~tedb/Courses/UCSBpf/warmglow.pdf>.

the measure of social welfare.²⁸ In addition, the recipient of the book from the donor also obtains utility from the donated book. If the recipient of the gift is a public library, the utility of everyone who would borrow and read the book from the library should be also included in the measure of total utility.²⁹ In the absence of a first sale doctrine to digital works, these additional utilities from the donation of a used book would be lost. It may be argued that, in the absence of a first sale doctrine to digital works, the donor may simply donate the price of a book to a person to buy it. However, the disutility from paying the full price of a book may be higher than the disutility of donating a book after its use.³⁰ The disutility would be lower when the donor could use the book first before he donates it, making the donation more likely in such case. In case of a used book, the donor would capture some utility from reading the book before donation. For example, if the price of the book is \$15 but the utility derived from the donation of the book is only \$5, the donation may not take place in the absence of the right to transfer. On the other hand, with the right to transfer used books, the donor may donate the book she purchases for \$15 and derives utility above \$15 from reading the book. Donating the book after use will enhance the utility of the donor further.³¹

2. Positive Externality from the Right to Resell

The potential utility to be derived by the users of secondhand copies can be considered as a positive externality arising from the initial purchase of a digital copy with the right to resell. An externality is a benefit obtained or a loss suffered by people who are not parties to a transaction.³² In this example, the copyright holder of a book and the initial purchaser of a copy of the book may not take into account the utility future users of the copy would derive. As a result, some transactions between the copyright holders and prospective buyers would not occur simply because the private benefit derived by a purchaser (e.g., \$10) from reading the book is less than the price of the book (e.g., \$15), even though total benefit derived from the book by all users is, for instance, \$20. If, however, the above purchaser can sell the copy at a price above \$5, he may be willing to buy the book. The second purchaser may derive another \$10 worth utility from the purchase of the copy in the secondhand market at a price above \$5, but below \$10. Thus, the total utility derived by these two users of the book is \$20. This utility may be lost in the absence of resale right in a digital

²⁸ See generally SHAVELL, *supra* note 19, at 58-59.

²⁹ It is noteworthy here that it is the first sale doctrine that made it possible for public libraries to lend their books to patrons without any permission from copyright holders.

³⁰ A donor obtains both utility and disutility from a donation. The disutility is the cost of donation while the utility is the good feeling arising from the donation. A donor would make the donation when his net utility is positive.

³¹ See example *infra* note 32. It can be proven that a person, who would not otherwise buy a book because his private benefit from reading the book (e.g., \$10) is lower than the price of the book (e.g., \$15), may decide to buy the book when he could donate the book as long as the total utility derived from reading and donation together is greater than the price of the book.

³² See Muhammad M. Billah, *The Role of Insurance in Providing Adequate Compensation and in Reducing Pollution Incidents: The Case of the International Oil Pollution Liability Regime*, 29 PACE ENVTL. L. REV. 42, 65-66 (2011), <https://core.ac.uk/download/pdf/46710367.pdf> (defining the meaning of 'externality').

work. The same example could be used for donation. A person whose utility from reading a book (e.g., \$10) is lower than the price of book (e.g., \$15) may be motivated to purchase a copy of the book if he could donate it afterwards because of additional utility he would derive from the donation (e.g., utility worth any amount above \$5 in our example).

As mentioned earlier, when some users of a digital work, who would not otherwise buy the work because of its monopoly price, receive the work free through donation or at a lower price from a previous user, they derive certain benefits from the use. Such benefits would be lost if the purchaser of a digital copy cannot transfer the copy to others. The presence of this positive externality suggests that market transaction for digital works without the right to transfer will not capture the full potential benefits of a transaction, and that there is a need for legislative intervention.³³ Thus, copyright laws should be amended to ensure the continuation of the right to transfer in both digital and analog works.

As mentioned earlier, some copyright holders use legal means to characterize the transactions involving the transfer of digital works as ‘license,’ and put restrictions on further transfer of such copy in the license agreements. As argued earlier,³⁴ the long and indefinite duration of such transactions makes them more of a ‘sale’ than ‘license’. Even if we consider the acquisition of a digital work as a license, the inability to transfer such licensed copy would cause social loss. The argument here is the same as the one that relates to the mutual benefits of trade between two parties. Whether the person who obtains a digital copy of a work is considered as an owner of the copy or as a licensee, his ability to transfer the copy would enhance the utility or welfare of both the transferor and the transferee when the value of the transferred digital work is more to the transferee than to the transferor. Thus, any restriction in license against the transfer of a digital work would generate social loss if upheld by the courts.

3. Ensuring Availability of Digital Works

A strong argument for the first-sale doctrine in the context of *analog* works is that a secondhand market ensures the availability of a work long after its publication.³⁵ A book may be out of print, and the publisher may not run a reprint simply because doing so is not economically viable for the publisher due to low demand for the book.³⁶ A digital work, however, may never be out of print as an additional digital copy can always be made almost instantaneously and without much cost. Yet, it is possible to prove that in the absence of secondary market for digital works, a digital work also may not be available. For example, the copyright holder in a digital work may decide not to sell the work anymore because of some

³³ See ARTHUR CECIL PIGOU, *THE ECONOMICS OF WELFARE* (1932) (refer to for examples of classical works on externalities and the need for regulations to address externalities).

³⁴ *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1116 (9th Cir. 2010); *Krause v. Titleserv, Inc.*, 402 F.3d 119, 122 (2d Cir. 2005); Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.* 2012 E.C.R. I-0000 (available at <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:62011CJ0128>) (For additional explanation, refer to the discussion in the background section.).

³⁵ See Katz, *supra* note 8, at 110-111.

³⁶ See Perzanowski & Shultz, *supra* note 18, at 895.

embarrassing or controversial contents of the work.³⁷ As similar situations have occurred in the past, we cannot rule out their reoccurrence in the future, whether the work in question is digital or analog. For example, CBS decided not to air its radio and TV series ‘The Amos ‘n’ Andy Show’ because of its offensive content.³⁸ Similarly, the Worldwide Church of God, which had copyright in the book, *Mystery of the Ages*, decided to withdraw it from distribution and use.³⁹ In the absence of a first sale doctrine to digital works, the right-holder can control access to a work, and can stop distributing the work without any alternative means for a new user to buy the work from the secondary market – especially if the work has no analog version.

4. *Improvement of Competition*

First sale doctrine may promote competition among various sellers of the same copyrighted works including digital works. This may happen both in the retail market and in the secondary market. Once copyright holders sell their works to retailers, retailers should be free to charge any price they want. This will increase competition among retailers and will lower the price of copyrighted works. Second, once retailers sell the copyrighted works to users, users should be free to resell their copies at a price they like. The ability of users to resell their copies may put more competitive pressure on the copyright holders to reduce the price of their works, and to bring the price of the works to their marginal cost of production after recouping their cost of development.⁴⁰ In the absence of first sale doctrine, copyright holders may control the price at both levels. Copyright holders may impose on retailers of the works various restraints including minimum retail price, maintenance to keep the price high and, in the context of digital works, may use technologies to prevent users from reselling the digital works. This reduces competition and may keep the price of the works high.⁴¹

³⁷ Berne Convention for the Protection of Literary Artistic Works, Sept. 9, 1886, 25 U.S.T. 1341, 1161 U.N.T.S. 3 (It is notable here that an author has the right to withdraw his work from circulation. The right is indicated in article II (8) of the Appendix to the Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, 25 U.S.T. 1341, 1161 U.N.T.S. 3 [hereinafter Berne Convention]. Such right of withdrawal, however, does not allow the author to retake the copies already sold from their purchasers even if it is possible to do so. Thus, interested readers and researchers in the future can obtain the copy of such a work from the secondary market. This would not be possible for a digital work after its withdrawal if there is no right or ability of a purchaser to resell or transfer the copy she purchased before the withdrawal of the book. This would deprive a researcher or a reviewer to know about the work and the reasons for its withdrawal.)

³⁸ See Hinkes, *supra* note 18, at 703-704; see also Silverman v. CBS Inc., 870 F.2d 40 (2d. Cir. 1989); Worldwide Church of God v. Philadelphia Church of God, Inc., 227 F.3d 1110 (9th Cir. 2000).

³⁹ *Id.*

⁴⁰ See generally SHAVELL, *supra* note 19, at 138-140. Copyrighted works have at least two types of costs: the costs of *development* and the costs of *production* or publication. The former involves the time and expenses an author incurs in coming up with the ideas expressed in a copyrighted work, while the latter covers the cost of printing or publishing the work. For an additional digital copy, the marginal cost of publication may be very negligible.

⁴¹ See MANKIW, *supra* note 20, at 90-91. Even though holders of intellectual properties have monopoly on their works, whether they can charge very high price for their copyrighted materials and patented inventions depends on the price elasticity of demand for a particular copyrighted work or a patented product. If the demand for the particular product is inelastic (i.e., price elasticity of

Historically, any restraints imposed by copyright holders on the resale of a work or on its price were considered anti-competitive. In fact, the origin of the first sale doctrine in the U.S.A. was a court decision against the restraints imposed by a publisher on the minimum price at which retailers must sell the copies of a copyrighted work.⁴² Such restraints from producers or copyright holders on the chain of distribution are called “vertical restraints” or “post-sale restraint.”⁴³ While in the past vertical restraints *per se* were considered illegal, courts and commentators today do not categorically consider such restraints as illegal. They determine the legality or otherwise of such restraints through a case-by-case analysis of their effects on competition, known as the “rule of reason” test. In other words, such restraints would be illegal only if they are unreasonable and stifle the competition.⁴⁴

This change in the attitude of the courts led some authors to argue that today the first sale doctrine relies on a very weak foundation,⁴⁵ and thus should not be applied to digital works.⁴⁶ Even if vertical restraints could be justified on the distribution chain from publishers to distributors and retailers, such restraints on the ultimate user of a copyrighted work have no justifications. As discussed above, restraints such as the prohibition or prevention of resale or donation of a digital work reduce the utility of both the procurer of an initial copy and the purchasers of used copies from the secondary market. Authors who argue against the use of copyright exhaustion as a means to prevent anti-competitive practices usually limit their discussion on possible pro-competitive benefits of such restraints on the *retailers* of copyrighted works.⁴⁷ Their arguments, thus, do not prove that restricting the ability of an ultimate *user* to resell digital copies of copyrighted works in the secondhand market is also pro-competitive and beneficial for the market of the copyrighted works. In fact, the arguments supporting vertical restraints in certain cases do not even seem relevant for restricting resale of copyrighted works, whether digital or analog, by a user of those works, as such restraints mainly aim at restricting intra-competition among distributors.

demand is less than 1), then the price increase will lead to an increase in the total revenue. On the other hand, if the price elasticity of demand for the product is elastic (i.e., price increase leads to a greater decrease in the demand), the increase of price will lead to revenue loss. The determination of elasticity or inelasticity of demands depends on various factors such as availability of close substitutes, the nature of the work i.e., whether it is necessity or luxury, and time horizon etc.

⁴² *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908).

⁴³ See Herbert Hovenkamp, *Post-Sale Restraints and Competitive Harm: The First Sale Doctrine in Perspective*, 66 N.Y.U. ANN. SURV. OF AM. L. 487, 487-489 (2011), https://scholarship.law.upenn.edu/cgi/viewcontent.cgi?article=2817&context=faculty_scholarship.

⁴⁴ *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 886 (2007) (In this case, the US Supreme Court abolished *per se* prohibition of vertical restraints on the resale price maintenance terms.).

⁴⁵ See Rub, *supra* note 5, at 754-759.

⁴⁶ *Id.* at 747-748.

⁴⁷ See Rub, *supra* note 5, at 754-759; Katz, *supra* note 8, at 70-74; see also Katz, *supra* note 8, at 84-89.

5. *Right to Alienate One's Property*

When a copy of a copyrighted work is sold, the copy becomes the property of the purchaser. Both physical properties and intellectual properties come with a bundle of rights. This bundle usually includes both the right to use and the right to transfer the property. As argued earlier, the ability to transfer a purchased copy after its use facilitates a mutually beneficial transaction between the purchaser of the new copy, and subsequent purchasers of the used copy. Historically under common law, any restraints on the alienation of property were considered automatically illegal. While this rule was originally used in the context of restraints on real estates, the rule was extended to intellectual property. This was an additional justification of the first-sale doctrine.⁴⁸ Although today the invalidity of such restraints on the alienation of property is not automatic and depends on a case-by-case analysis of reasonableness of such restraints, there appears to be no justified grounds apart from extracting greater profit for copyright holders through such restraints on the resale of a digital copy. Thus, this change in the application of the above common law rule with regard to real estates should not be a reason for the abolition of first-sale doctrine, either in analog works or digital works, contrary to the belief of some authors.⁴⁹

6. *Protection of Privacy in Reading*

In the context of digital works, a serious concern about the privacy of readers exists. People who purchase and read a digital works can be easily identified, and their reading history can be tracked through digital right management technologies.⁵⁰ This concern would remain whether or not the purchaser of digital copy has the right to resell the copy, unless the copyright holder or publisher is prohibited from tracking the purchasers of used digital copies after they've been resold. Such prohibition would not have its full intended benefit in the absence of a first sale doctrine to digital works. If first sale doctrine does not apply to digital works, every reader has to purchase the copy of a work directly from the publishers or publishers' agents. Such a purchase may reveal private information about the purchaser. A person interested in buying a book about alcohol addiction may be viewed as an alcoholic himself; with the availability of a first sale doctrine in digital works, this person can avoid buying the book directly from the publisher, thus preventing the publisher from knowing who is reading the book after its resale. This would be true only if publishers cannot use digital rights management technologies to track the devices on which the digital book is read after its resale, and also to track the identity of the devices' owners. To prevent such tracking, it should be made illegal for a publisher to continue tracking after a work has been sold to the first buyer.

⁴⁸ *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013) (“[T]he ‘first sale’ doctrine is a common-law doctrine with an impeccable historic pedigree.”).

⁴⁹ See Rub, *supra* note 5, at 759-762 (arguing against first sale doctrine based on this change).

⁵⁰ See generally Julie E. Cohen, *A Right to Read Anonymously: A Closer Look at “Copyright Management” in Cyberspace*, 29 CONN. L. REV. 981 (1996), <https://scholarship.law.georgetown.edu/cgi/viewcontent.cgi?article=1815&context=facpub>.

7. *Saving in Information Cost*

In the absence of copyright exhaustion for digital works, purchasers of digital copies may incur information costs concerning their ability to resell the copies. This arises due to a variety of practices among sellers of digital works. For some digital works, purchasers have the ability to resell them. Yet, for others, purchasers cannot resell. Such information is important for purchasers in making their decision to purchase the copy in the first place. The information cost here involves the time and effort spent by a prospective purchaser to find out whether she would be able to resell the copy. The application of first-sale doctrine or copyright exhaustion eliminates this cost as the purchaser would always have the right to resell the copy.⁵¹ This cost may vary from purchaser to purchaser. Repeat purchasers may incur lower cost than the ordinary purchasers. Regardless of its amount, this cost is not completely eliminated with the absence of a first-sale doctrine in digital works.

III. ANALYSIS

A. Arguments Against the Resale of Digital Works and Their Rebuttal

1. Exclusive Right of Reproduction

One of the main arguments against the application of the first-sale doctrine to digital works is the prohibition against reproduction of a copyrighted material. When the purchaser of a digital copy transfers the copy to someone else, the copyrighted work is reproduced in the process. The transferee gets not the exact purchased copy of the work, but a different copy reproduced from the purchased copy. Under copyright laws, the right of reproduction (i.e., the right to make a copy) is granted exclusively to the copyright holder.⁵² This is why in *Capitol Records, LLC v. ReDigi Inc*⁵³ the U.S. District Court for the Southern District of New York held that the resale of a digital work was not covered by the first sale doctrine. According to the court, the doctrine did not apply to digital works separate from the physical medium (e.g., CD, phone, computers, etc.) on which the works were embodied.⁵⁴ This was despite the fact that the defendant used technology to ensure that the original purchased copy was deleted from the initial purchaser after reselling it to another person.

The court's reasoning in the *ReDigi* case is very technical and literal interpretation of the law. If we look at some of the earlier American and Canadian

⁵¹ See Perzanowski & Shultz, *supra* note 18, at 896-897.

⁵² See 17 U.S.C. § 106(1); Law on Copyright and Neighboring Rights, Royal Decree 65, art. 6(a), (2008 Oman); Copyright Act, R.S.C., 1985, c. C-42, art. 3(1)(a), (Can.).

⁵³ *Capitol Records, LLC v. ReDigi, Inc.*, 934 F. Supp. 2d 640, 660 (S.D.N.Y. 2013).

⁵⁴ Case C-128/11, *UsedSoft GmbH v. Oracle Int'l Corp.* 2012 E.C.R. I-0000 (available at <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:62011CJ0128>). In contrast, the European Union Court of Justice held that the doctrine of exhaustion applied to the digital copy of a software.

cases decided in the non-digital context, we can easily consider reproduction of digital work for the purpose of resale valid as long as there is *no additional copy* left after the transfer. For example, in the Canadian case of *Théberge v. Galerie d'Art du Petit Champlain inc.*,⁵⁵ the majority in the Supreme Court of Canada held that a simultaneous transfer of a work to a new medium and the destruction of the purchased copy on the old medium did not leave more than one copy, and thus such transfer should not be considered 'reproduction' for the purpose of copyright law. The case involved a chemical process through which both the image and the ink from a paper-based art work were lifted and transferred to a canvas, thus leaving the paper (poster) blank once the transfer was complete. The copyright holder in the posters sued the art gallery which used the process to transfer the work for infringing the former's exclusive right of reproduction. The court held that the alleged process was simply a transfer from one display to another and not a reproduction. As the art gallery was the legitimate purchasers of the posters, it had the right to make the transfer.⁵⁶ In its interpretation of the word "reproduction," the court looked at the word in its historical context and held that the exclusive right of "reproduction" was granted to copyright holders under copyright law to prevent others from making additional copies.⁵⁷ As the process in question involved making no additional copies, there was no reproduction.

If we consider the purpose behind the prohibition of reproduction, we see that under normal circumstances, the reproduction of a copyrighted work deprives copyright holders of the economic benefits they would otherwise obtain by selling additional copies. This does not happen when there is only one copy left after the resale of a digital copy. When there are no additional copies after a digital transfer is made through temporary reproduction, such reproduction does not affect the economic interest of copyright holders. This approach was also adopted in an earlier American case, *C.M. Paula Co. v. Logan*.⁵⁸ The case also involved the transfer of some copyrighted designs from greeting cards and note pads to ceramic plaques through certain chemical process. Each transfer to a ceramic plaque required the purchase of a separate copyrighted artwork. When the copyright holder in the designs sued the purchaser of the greeting cards and note pads for the transfer of the designs, the court held that the process did not amount to "reproduction." According to the court, the purchaser of a copy selling a copyrighted product with another product did not infringe copyright as long as there was no "reproduction" in the sense of an additional copy. The court reasoned that "reproduction" implied that a new copy was made while the original copy still existed. As the alleged chemical process removed the design and the ink from the original artwork, there was no reproduction for the purpose of copyright infringement.

⁵⁵ [2002] 2 S.C.R. 336 (Can.).

⁵⁶ *Id.* at 344-345 (according to the majority of the court, "They purchased lawfully reproduced posters of his paintings and used a chemical process that allowed them to lift the ink layer from the paper (leaving it blank) and to display it on canvas. They were within their rights to do so as owners of the physical posters (which lawfully incorporated the copyrighted expression). At the end of the day, no new reproductions of the respondent's works were brought into existence.") (emphasis added).

⁵⁷ *Id.* at 338.

⁵⁸ *C. M. Paula Co. v. Logan*, 355 F. Supp. 189, 192 (N.D. Tex. 1973).

Based on these cases, it can be argued that if the purchased digital copy is destroyed at the same time a new copy is made for resale or donation, then there would be no violation of copyright holder's exclusive right of "reproduction." The case of *C.M. Paula Co. v. Logan* was brought to the attention of the District Court in the *Capitol Records, LLC v. ReDigi Inc.*⁵⁹ The court in the latter case attempted to distinguish the earlier case by briefly stating that no new material was created when the design was lifted from greeting cards to ceramic plaques. The reasoning of the court appears to be very weak. If the transfer of music files from someone's phone or computer to ReDigi's server amounts to the creation of new material, why a transfer of design and ink from a greeting card to ceramic plaque would not create a new material? In both cases, the work is transferred to a new medium without leaving a copy on the old medium.

Even if a digital transfer is considered a "reproduction" of the original copy, such reproduction could be justified under the three-step test of the *Berne Convention*.⁶⁰ According to article 9(2) of the *Berne Convention*,⁶¹ national legislation can allow exceptions to the right of reproduction if the following three conditions are satisfied: a) the reproduction exceptions are only for special cases; b) such exceptions do not interfere with the normal exploitation of the work; and c) they do not unreasonably prejudice the legitimate interests of the author. Reproduction for the purpose of transferring a digital copy can be considered a "special case" because such reproduction is necessary to resell the purchased digital copy, and the reproduction is limited only for the purpose of digital transfer. Such reproduction will not interfere with the normal exploitation of the copyrighted work as there would be no additional copies made in the process and thus will not prevent the copyright holder from exploiting the copyrighted works economically. Finally, it is hard to see how such a reproduction for digital transfer would unreasonably prejudice any other legitimate interests of copyright holders.

In addition, such temporary reproduction for the purpose of resale or donation may be covered by a fair use exception if we again assume that the transfer of digital work amounts to 'reproduction'. Under the fair use doctrine, use of copyrighted material such as copying an entire work, or part of a work, may be permitted if certain factors are met. The factors include: the purpose of the use, the nature of the work, the amount of copying, and the effect of the copying on the potential market for

⁵⁹ *Capitol Records, LLC v. ReDigi, Inc.*, 934 F. Supp. 2d 640, 650-651 (S.D.N.Y. 2013).

⁶⁰ *Berne Convention for the Protection of Literary Artistic Works*, Sept. 9, 1886, 25 U.S.T. 1341, 1161 U.N.T.S. 3 (It is notable here that an author has the right to withdraw his work from circulation. The right is indicated in article II (8) of the Appendix to the *Berne Convention for the Protection of Literary and Artistic Works*, Sept. 9, 1886, 25 U.S.T. 1341, 1161 U.N.T.S. 3 [hereinafter *Berne Convention*]). Such right of withdrawal, however, does not allow the author to retake the copies already sold from their purchasers even if it is possible to do so. Thus, interested readers and researchers in the future can obtain the copy of such a work from the secondary market. This would not be possible for a digital work after its withdrawal if there is no right or ability of a purchaser to resell or transfer the copy she purchased before the withdrawal of the book. This would deprive a researcher or a reviewer to know about the work and the reasons for its withdrawal.)

⁶¹ *Id.* (Article 9(2) provides, "It shall be a matter for legislation in the countries of the Union to permit the reproduction of such works [literary and artistic works] in certain special cases, provided that such reproduction does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author.").

the work.⁶² Courts usually consider the last factor i.e., the effect of copying on its economic exploitation as one of the most important factors in deciding fair use.⁶³ As stated above, reproduction for the purpose of resale of a digital work does not create any additional copies, and thus does not negatively affect the financial interest of the copyright owner.⁶⁴ Even though the entire work is reproduced in the process, and thus the factor related to the amount of copying appears to weigh against such reproduction, the reproduction here does not cause greater harm than what is fair and permissible under current copyright laws (i.e., the resale of a copy by its legitimate purchaser). The sole purpose of such temporary reproduction is to transfer a lawfully purchased copy – a purpose permitted under the copyright law, specifically under the first sale doctrine. Finally, the weight of the factor related to the nature of copying seems to be neutral in such a reproduction, whether the work is highly creative or informative has no relevance for such a reproduction.⁶⁵ Also, the question of resale right in an unpublished work does not arise here, as our topic relates to the resale right in a purchased copy of a *published* work.⁶⁶

In addition, in the context a of “computer program,” copyright laws allow the legitimate owner of the copy of a computer program to reproduce copies – either to use the program in a different computer, or to save it for future use by the owner in case the original is lost or damaged.⁶⁷ While some suggest that the words “computer programs” mainly cover computer software,⁶⁸ such a narrow interpretation is not indispensable under the law. Under American Copyright Act, “computer program” is defined as “a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result.”⁶⁹ This definition is broad enough to cover software, e-books, and any other digital works. While a computer program in the form of software has a different function from that of an e-book, “computer programs” are considered “literary works” alongside books under the Berne

⁶² See 17 U.S.C. § 107 (2018).

⁶³ *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 574 (1994) (quoting *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 566 (1985)). The U.S. Supreme Court considered this factor to be the single most important factor in the determination of fair use of copyrighted works.; see also Ann Bartow, *Educational Fair Use in Copyright: Reclaiming the Right to Photocopy Freely*, 60 U. PITT. L. REV. 149, 153 (1998), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=506983; Ysolde Gendreau, *Intellectual Property Colloquium Series: Canada and the Three-Step Test: A Step in Which Direction?*, 15 MARQ. INTEL. PROP. L. REV. 309, 365 (2011), <https://scholarship.law.marquette.edu/iplr/vol15/iss2/3/>.

⁶⁴ See generally John T. Mitchell, *DRM: The Good, the Bad, and the Ugly: Colleges, Code and Copyright: The Impact of Digital Networks and Technological Controls on Copyright*, in *Librarianship No. 56*, (2004), http://interactionlaw.com/documentos/DRM_good_bad_ugly.pdf (last visited Aug. 12, 2018) (Symposium sponsored by the Center for Intellectual Property in the Digital Environment, University of Maryland University College, Adelphi, Maryland, U.S.A.).

⁶⁵ See *Basic Books, Inc. v. Kinko's Graphics Corp.*, 758 F. Supp. 1522, 1532-1533 (S.D.N.Y. 1991).

⁶⁶ See Berne Convention for the Protection of Literary Artistic Works, Sept. 9, 1886, 25 U.S.T. 1341, 1161 U.N.T.S. 3; *Harper & Row, Publ'rs, Inc. v. Nation Enters.*, 471 U.S. 539, 553 (1985).

⁶⁷ 17 U.S.C. § 117 (2018); Copyright Act, R.S.C., 1985, c. C-42, art. 30.6, (Can.); Law on Copyright and Neighboring Rights, Royal Decree 65, art. 20(5), (2008 Oman).

⁶⁸ See Mulligan, *supra* note 7, at 475; U.S. Copyright Office, *Copyright and Digital Files*, COPYRIGHT.GOV, <https://www.copyright.gov/help/faq/faq-digital.html> (last visited Aug. 8, 2018).

⁶⁹ 17 U.S.C. § 101.

Convention.⁷⁰ The main point to emphasize here is that copyright laws allow reproduction of a computer program, when doing so is essential for the utilization of the program or for archival purposes. Logically, reproduction for the purpose of transfer is also necessary for the exercise of a right guaranteed under copyright laws (i.e., the first sale doctrine), and thus should be also allowed. In both cases, such a reproduction does not affect copyright holders more than what is permissible under copyright laws.

2. Non-degradability and Easy Transferability of Digital Works

Other arguments against the resale of digital works would also not withstand any critical evaluation of their merits. Below, I state some of these arguments first, and then rebut them. First, digital works, unlike their physical counterparts, do not degrade with the time and use. Consequently, the used and new digital works are indistinguishable from each other. Thus, the argument goes that the resale of digital goods affects copyright holders more seriously than cases involving the resale of analog works. Second, geographical barriers and transportation cost do not exist in the context of digital goods. It is argued that such barriers work as the natural brake on the negative effect of resale on the copyright holders' market share.⁷¹ If anything, these arguments simply prove the benefits of digital works both for users and holders of copyrighted works in digital format. They do not deprive copyright holders of their right to exploit their works economically to recoup their development costs, and also to earn the necessary profits to encourage the creation and distribution of copyrighted works in the first place.

All the arguments in the above paragraph against the application of a first sale doctrine in digital works revolve around the potential monetary loss copyright holders would suffer due to the resale or rent of digital works by the purchaser of a copy. If a person purchases a digital copy of a book and if he can sell or rent the copy to another person, this will reduce the number of copies the copyright holder could sell. This is because only the people who want to read the book within the first few days or weeks of its publication would buy digital copies directly from the copyright holder. Others who can wait would rather borrow, rent, or purchase their copies from the first purchasers at a reduced price. While this also happens for an analog book, there are some limitations in the non-digital world. First, it is difficult for an interested reader to know who has purchased a particular book unless the purchaser happens to be a friend, close family member, or neighbor of the interested party. In the digital world, this barrier can be easily overcome through online book forums if divided into different genres. Second, in the analog world, even if an interested reader wants to borrow a book from a friend or family member, and if they are not

⁷⁰ Marrakesh Agreement Establishing the World Trade Organization art. 10(1), Apr. 15, 1994, Annex 1C, 1869 U.N.T.S. 299, 33 I.L.M. 1197 (1994) [hereinafter TRIPS Agreement] (Article 10(1) reads, "Computer programs, whether in source or object code, shall be protected as literary works under the Berne Convention (1971).") Similarly, WIPO Copyright Treaty provides, "Computer programs are protected as literary works within the meaning of Article 2 of the Berne Convention. Such protection applies to computer programs, whatever may be the mode or form of their expression.")

⁷¹ Katz, *supra* note 8, at 135.

located close to each other, this would involve cost to ship the book, or wait time before they can meet each other to hand over the book. This would not be necessary in the case of digital works. The digital copy of a book can be transferred in seconds. Third, analog copies will wear and tear over a period of time. Thus, only a limited number of people, even though large, can use the same analog copy over its lifetime. This limitation also does not exist in a digital work. A digital copy can last forever.

Now the question is whether the reduced sale of a digital work is a good justification for preventing the application of the first sale doctrine to digital works. First of all, even in the case of analog works, the ability to resell a purchased copy of an analog work reduces the total number of copies the copyright holder can sell. Why then should this be a valid argument in the context of digital work? A plausible answer from opponents of the first sale doctrine is that the negative impact in the form of reduced sale is greater in the context of digital works.⁷² Yet, it is also true that in the presence of digital technology and the Internet, copyright holders can make their works available simultaneously to a larger readership from all over the world. This may increase the sale of the digital works. Second, even if the gross revenue from the sale of digital works decreases due to the resale or rent of digital works, the net revenue for the copyright holder may still be high simply because the cost of production for digital works may also be less even if we include the sunk cost of the copyright owner (i.e., the money invested by the copyright holder in technological equipment in producing digital works).⁷³

3. *Reduced Incentives to Create*

A related argument against the first sale doctrine, especially in the context of digital works, is the reduction of incentives to create due to reduced sale of copyrighted works. As discussed in the above paragraph, reduced sale of a digital work may not necessarily reduce the profits copyright holders and publishers would make from a copyrighted work when we compare the potential profits the analog version of such work would generate in the absence of digital technology. In other words, while digital technology may allow copyright holders and publishers to make greater profit and allowing resale of a digital work may reduce some of the additional profit, their net profit may still be higher than the profit they could make in an analog world. Now, the question is whether the reduction in the additional profit would affect the incentives to create? Apparently, the answer may be in the affirmative because the higher the profit, the greater is the incentive. Greater profits from copyrighted works would attract more authors and more resources to the creation of expressive works. Some authors use this line of arguments against the first sale doctrine.⁷⁴

⁷² See Rub, *supra* note 5, at 747-748.

⁷³ R. Preston McAfee, Hugo M. Mialon & Sue H. Mialon, *Do Sunk Costs Matter?*, 48 ECON. INQUIRY 323 (2010), <http://citeseerx.ist.psu.edu/viewdoc/download;jsessionid=E15F6A1CA5DE99D3545C0A1ECB7D1CDA?doi=10.1.1.212.3067&rep=rep1&type=pdf> (Inclusion of sunk cost in a decision for making a further copy is not considered rational behavior in economics literature. However, some authors argue that many rationale individuals would include such costs in their decision making.)

⁷⁴ See Rub, *supra* note 5, at 762-773.

Creation of more works, however, is not the main goal of copyright laws, let alone the sole goal. Promotion of education is the primary goal of copyright law.⁷⁵ Achievement of this goal requires striking a fine balance between two opposing objectives: access and incentives.⁷⁶ Abolishing the first sale doctrine and other rights of users, such as fair use, will provide greater incentive to create by allowing copyright holders to sell more copies, and potentially to sell them at a higher price. Such measures, however, would also limit users' access to copyrighted works. Under our current copyright system, it is impossible to have both greater access to copyrighted works and a heightened incentive to create.⁷⁷ First sale doctrine and fair use exceptions to the rights of copyright holders are designed to strike this balance. If the doctrine is justified in analog works, it may be more so in digital works due to higher profits publishers and copyright holders can make from digital works even with the presence of a first sale doctrine.

IV. PROPOSAL

A. Necessary Legislative Changes to Protect the First Sale Doctrine in Digital Works

In light of the above-mentioned benefits of the first sale doctrine, the doctrine must be preserved in digital works by making some legislative changes, both at international and national levels. The doctrine should be made mandatory in the sense that it would be illegal for copyright holders to prevent the operation of the doctrine both in digital and in analog works, either through DRM technological measures, or through contractual means. At least, the doctrine should be made a strong and "sticky default rule" (i.e., any technological or contractual means used to deprive its use would be presumptively unlawful unless the copyright holder can prove that such a restriction is necessary, and more efficient than any other alternative).⁷⁸ As for contractual restrictions on transfer of digital works, some authors suggest that such contractual restrictions should be upheld only in cases of negotiated contracts, and should be subject to judicial scrutiny in cases of standard-form contracts.⁷⁹ In addition, if the transaction is a sale contract in its true nature, as opposed to license, any restriction on alienation or transfer should be illegal.

⁷⁵ U.S. Const. art. I, § 8, cl. 8 (This clause states, "The Congress shall have Power ... to 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.").

⁷⁶ *Stewart v. Abend*, 495 U.S. 207, 228 (1990) ("The [Copyright] Act creates a balance between the artist's right to control the work during the term of the copyright protection and the public's need for access to creative works.").

⁷⁷ SHAVELL, *supra* note 19, at 162-164. An alternative to current copyright system is state reward system. Under the state reward system, the state would reward authors and artists for their creation. Authors and artists would not have any copyright right in their works. Anyone can copy the works. Under such a reward system, it is possible to have both higher incentive and greater access. Yet, the reward system has its own disadvantages due to the difficulty in assessing the value of a work, in determining the right amount of reward, and in financing the system.

⁷⁸ Katz, *supra* note 8, at 63, 101.

⁷⁹ See Rub, *supra* note 5, at 748.

From the current statutes and case law, it is not clear whether a first sale doctrine is a mandatory rule, or a default one.⁸⁰ Upon analysis of current case law, some authors suggest that the first sale doctrine now operates as a weak default rule.⁸¹ As a result, copyright holders can easily modify the application of the doctrine by DRM technological measures and contractual provisions. The fact that the first sale doctrine is a weak default rule is partly due to the view held by many people that the doctrine is a defense, not an affirmative right of users.⁸² According to that view, copyright exceptions, including the first sale doctrine, are defenses rather than enforceable rights. As a result, copyright holders are not obliged to grant users of copyrighted works the ability to utilize these exceptions in the context of digital works, which are usually protected by DRM technologies.⁸³

As for the scope of the first sale doctrine in the context of digital works, the doctrine should apply without any restriction of national boundaries. In other words, international exhaustion should apply to digital works. That is, when a person purchases a copy of a digital work, the purchaser of the copy should be able to resell it to anyone from any part of the world. This is due to the fact that the digital world knows no boundary. Restricting the right of resale only to national market (i.e., national exhaustion rule) would be very difficult to implement in the digital world. Even if it is possible to implement by certain technological means, such a restriction cannot be justified, especially when the initial sale of digital works is not so restricted. In the context of analog works, publishers may maintain price discrimination and thus sell the same work at different prices in different countries. Despite such price discrimination, the U.S. Supreme Court recently held⁸⁴ that the copyright exhaustion applied to books sold in foreign markets at a much lower price than the price in American market, that were then imported in the U.S.A. for resale.

Even if there is any justification for restricting the application of a first sale doctrine to national market in the context of analog works due to different prices in different markets, no such justification exists for digital works, which are usually sold over the Internet at the same price to users from all over the world. It is notable here that countries differ in their application of copyright exhaustion in the context of analog works.⁸⁵ Some apply national exhaustion, while others follow international exhaustion. European Union nations, on the other hand, stick to regional exhaustion. Such differences may be attributed to the lack of any provision in the international conventions on copyrights. The *Berne Convention* is silent on the issue.⁸⁶ The *TRIPS Agreement*⁸⁷ specifically states that none of its provisions addresses the issue of exhaustion.

In the U.S.A., section 104 of the *DMCA* requires the Registrar of the Copyright Office and the Department of Commerce to study the impact of the digital protection

⁸⁰ Katz, *supra* note 8, at 61.

⁸¹ *Id.* at 101.

⁸² Vasiliki Samartzi, *Digital Rights Management and the Rights of End-Users*, QUEEN MARY UNIV. OF LONDON (2013), https://qmro.qmul.ac.uk/xmlui/bitstream/handle/123456789/8642/Samartzi_V_PhD_final.pdf?sequence=1.

⁸³ *Id.*

⁸⁴ *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1391 (2013).

⁸⁵ Rub, *supra* note 5, at 751.

⁸⁶ Rub, *supra* note 5, at 752.

⁸⁷ TRIPS Agreement, *supra* note 70, art. 6.

measures under the *DMCA* on the first sale doctrine. In August 2001, the Copyright Office issued its report⁸⁸ to Congress. The report concluded that, at that time, there was no widespread use of technological measures or, if there was, such measures did not interfere with the right to resell digital works in the secondary market in a way that would constitute a serious threat to the first sale doctrine. Thus, the report made no recommendation for any changes in the existing law on the first sale doctrine. The report also rejected proposals made by various stakeholders to include express provisions in the *Copyright Act* to enable purchasers of digital works to resell the works.⁸⁹ A similar conclusion was also drawn earlier by a presidential task force in 1995. The task force concluded that a first sale doctrine under §109(a) of U.S. *Copyright Act* was not applicable to the retransmission (resale) of digital works acquired by email or download.⁹⁰ Following this conclusion there were several attempts to amend §109 to include the application of the first sale doctrine to digital works.⁹¹ These attempts, however, did not yet translate into any legislative changes to guarantee the rights of users under the first sale doctrine to digital works. In the 2001 report, however, the Copyright Office recognized that if the use of technological measures to prevent resale became widespread, it may have serious repercussions on the ‘first sale doctrine.’⁹² Today in 2018, we can confidently say that the use of DRM technologies is widespread and prevents purchasers of digital copies from exercising a right guaranteed under copyright laws.

V. CONCLUSION

At the time of the adoption of the WIPO’s Internet treaties and the implementing national legislation such as the *DMCA*, technology did not exist to ensure the deletion of a digital file from the medium on which it was attached once the file was transferred to another medium.⁹³ This was one of the reasons for the lack of clear provision on the first sale doctrine in the *DMCA*.⁹⁴ As technology now exists to ensure the deletion of a purchased copy after its transfer to another person or to another device, the digital transfer of a copy for the purpose of sale or donation should not be characterized as a “reproduction” if there is no additional copy left after the transfer. Some courts, like the court in the *Capital Records v. ReDigi* case, may not be willing to use this interpretation of the word “reproduction.” Therefore, it

⁸⁸ U.S. Copyright Office, *A Report of the Register of Copyrights Pursuant to §104 of the Digital Millennium Copyright Act*, U.S. COPYRIGHT OFFICE (2001), <https://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-1.pdf> [hereinafter *DMCA Section 104 Report*].

⁸⁹ *Id.* at 78-101; see generally Reese, *supra* note 6, at 582.

⁹⁰ Ronald H. Brown, *The Report of the Working Group of Intellectual Property Rights*, 5 BUS. L. TODAY 60 (1996), https://www.cedb.gov.hk/citb/doc/en/Councils_Boards_Committees/Final_Report_Eng.pdf.

⁹¹ Reese, *supra* note 6, at 581.

⁹² U.S. Copyright Office, *supra* note 88, at 75-76; see also Mitchell, *supra* note 64, at 19.

⁹³ Hinkes, *supra* note 18, at 697 (summarizing one of the arguments against the application of first sale doctrine to digital works).

⁹⁴ See Digital Millennium Copyright Act: Public Hearing Filed in Response to 65 FR 63626, (2000) (statement by Bernard Sorkin, Time Warner Inc.), <https://www.copyright.gov/reports/studies/dmca/testimony/summ09> (last visited Aug. 12, 2017).

would be better to modify the existing copyright laws to explicitly guarantee the application of the first sale doctrine to digital works.