

# Digital Book Distribution: The End of the First-Sale Doctrine?

By Joseph Gratz

If I want to buy the latest bestseller, I have a number of choices: I can walk to the local bookstore and pick up a copy, order a copy online, or have a copy sent electronically to my Kindle or iPad. The price is comparable for each of these choices. But what happens when I'm done with the book varies widely.

With a physical book, I can lend it to a friend, donate it to the library, or sell it to a used book store. But with a digital book, I can do none of these things. Because the book is digital, each of those activities would require making a new copy and would be an infringement of copyright absent some applicable license or privilege. When I'm done with my eBook, I can't do *anything* with it.

As consumers move from buying books to buying eBooks (and from buying CDs to buying downloads), the "digital first-sale" question will gain in importance. While the current digital distribution systems fulfill consumers' expectations of what they receive at the moment of purchase, consumers may be in for a surprise when they want to get rid of old books or music—and the copyright laws may need to be updated in order to ensure that traditional consumer rights are carried over into the age of digital distribution.

## The First-Sale Doctrine

Consumers' expectations that they can lend or resell used books comes not from the generosity or forbearance of the copyright holder, but from part of the Copyright Act itself. Section 109 of the Act reads, in part, "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."<sup>1</sup> This is referred to as the "first-sale doctrine" because after the first sale (or other disposition) of a particular physical copy, the copyright holder has no control over any later sale or loan of that particular copy.

The doctrine arose in the early 1900s after an attempt by a publisher to restrict resale of its books. In 1906, Macy's department store wanted to get customers in the doors, and to do so it made bestselling books available at a discount. Among those books was *The Castaway*, a fictionalized account of the life of Lord Byron.<sup>2</sup> Macy's sold *The Castaway* at a discount, for \$0.89 a copy—but the publisher, The Bobbs-Merrill Company, objected. It put a notice in the front of the book stating, "The price of this book at retail is \$1 net. No dealer is licensed to sell it at a lower price, and a sale at a lower price will be treated as an infringement of the copyright."

The publisher sued, and the case made its way to the Supreme Court in *Bobbs-Merrill v. Straus*.<sup>3</sup> The Court held that the publisher had the authority to control the first sale of a particular copy but did not have "the authority to control all future retail sales" of that particular copy.<sup>4</sup> This was, according to the Court, because the publisher had received "a price satisfactory to it" for the copies sold at Macy's, and did not have the right

to extract any further value from those copies.<sup>5</sup>

And so the modern first-sale doctrine was born: while publishers can control the price at which they are willing to sell books and other copyrighted works, they cannot control whether or how those copies are later resold. This doctrine was codified in the Copyright Act of 1976 as § 109, and has helped to spur the growth of lending libraries, video rental stores, and used book stores.<sup>6</sup>

## Are eBooks Different?

To lend or sell a physical book, then, requires no permission from the copyright holder. Even if the copyright holder objects, it can never be copyright infringement to loan or resell a lawfully made copy that you own. But digitally distributed books—eBooks—present a new set of problems. To move a book from the bookshelf in my house to the bookshelf in your house, no new copy needs to be made of the book. But to move a book from my Kindle device to your Kindle device requires that a copy be made. Because the current first-sale doctrine deals with the sale, gift, and loan of existing physical copies, not the making of new copies, it does not protect the lending of an eBook in the same way that it protects the lending of a physical book.

If I want to lend an eBook to my friend, I am at the mercy of the eBook vendor and, ultimately, the copyright holder. eBook lending on a Kindle, for example, is currently impossible. If I want to loan a book on my Kindle to a friend, I have to loan them my entire Kindle device—and such a loan is contractually prohibited by Amazon.<sup>7</sup> It has been announced that Amazon plans to introduce a lending feature for the Kindle, but lending will only be available with the publisher's permission, and each copy of a book may only be lent out once, ever.<sup>8</sup>

eBooks are still new, and many users don't yet have so many that they have thought to sell their old eBooks. But when consumers finally want to sell those old mystery novels in order to buy new mystery novels, they will find themselves in a pickle.

And they may ask Congress for help.

## A Way Forward

The essence of the reproduction right in copyright is the exclusive right to bring new copies of the work into the world. By controlling the creation of copies, the copyright holder can control the breadth of circulation and may choose the price at which he wishes to sell those copies.

---

**Joseph Gratz** is a partner at Durie Tangri LLP in San Francisco and has litigated a number of important Internet copyright and trademark disputes. He represents Google in class action copyright litigation related to the Google Book Search case and represented Google in the *Rescuecom v. Google* and *Vulcan Golf v. Google* trademark cases. He can be reached at [jgratz@durietangri.com](mailto:jgratz@durietangri.com).

So if I transfer a copy of an eBook from my iPad to my Kindle, deleting the original—or transfer a copy to my friend’s Kindle, deleting the original—has there been a transaction that the copyright laws should regulate? No additional copies have come into the world, so, arguably, no harm has been done to the copyright holder’s legitimate interests.

Enacting a “digital first-sale” rule that would apply consumers’ expectations about loans and resale to digitally distributed copies seems, at first blush, quite simple. Congress could enact a statute stating, “It shall not be an infringement of copyright to reproduce a copyrighted work, provided that for each new copy produced, a lawfully made copy of the same work must be permanently destroyed.” Indeed, there is support in some older cases for the proposition that such a principle is already part of the common law of copyright.<sup>9</sup>

But there are two principal practical problems with this idea: misbehavior by consumers and countermeasures by copyright holders.

### **Consumer Misbehavior**

The “digital first-sale” doctrine is supposed to be a way for consumers to be able to do in the digital world what they can already lawfully do in the real world. But it mustn’t be turned into an excuse for an infringer to buy one copy of an eBook and give copies to all his friends. The concern, then, is that consumers might not play by the rules: that they might “give the book away” or “lend it to a friend,” but still keep the original for themselves. Like all end-user infringement, “cheating” on the digital first-sale rules would be difficult to detect and remedy.

Of course, this is no worse than what consumers can do today: if a consumer wants to give a copy of a CD to a friend, he simply makes a copy and gives it to a friend. He is infringing copyright, but it’s hard for a copyright holder to find out. And with respect to eBooks, like music, the current state of affairs is far from infringement-free: there are parts of the Internet where infringing copies of almost any current bestseller can be downloaded, as PDF files, for free. (Unlike the eBooks available from Amazon, Apple, or Google, those illegal files can be read on any device, from a Kindle to an iPad to a mobile phone.)

How to curb consumer “cheating” without driving consumers to black-market, unrestricted eBooks? The answer may lie in precisely the technology that gives rise to the second practical problem with digital first sale: copyright holders’ technological countermeasures.

### **Copyright Holder Countermeasures**

Even if a law were passed tomorrow making it lawful for consumers to move their eBooks from their iPads to their Kindles, the law, standing alone, would make little difference. All of the commercial eBook sellers use technological measures—“digital rights management” technology—to restrict what consumers can do with their eBooks. Those technological measures are protected against circumvention by § 1201 of the Digital Millennium Copyright Act. And none of the current technological measures permit the lending or giving of used eBooks.

Obviously, for a digital first-sale statute to have any effect, consumers would have to be empowered to break these digital locks, so long as it was done solely for the purpose of exercising their right to lend or give an eBook. Indeed, such an

exemption to § 1201 was considered by the U.S. Copyright Office, but it was found that the problem was not yet immediate enough to justify regulatory intervention.<sup>10</sup>

But § 1201 of the Digital Millennium Copyright Act prohibits not only the act of circumventing digital locks, but also the act of giving consumers devices designed to circumvent those locks.<sup>11</sup> So even if the digital first-sale statute permitted consumers to unlock their own books, they would be without the tools to do so.

Herein lies a possible solution to the two practical problems with digital first sale. In order to limit consumers’ ability to “cheat,” the law could permit only those circumvention devices that automatically enforce the “create a copy, delete the original” requirement of the digital first-sale doctrine. Copying software that allowed consumers to infringe copyright would be unlawful, just as it is now. Consumers would have a convenient and readily available way to lend and give eBooks, and copyright holders would have the assurance that circumvention devices available on the open market wouldn’t permit “cheating.” At worst, copyright holders would seem to be no worse off than they are now—and consumers, their expectations about lending and resale met, might be less likely to turn to eBook piracy.

By enlisting the very technology that today prevents lending of eBooks, perhaps the ancient doctrine of first sale can be updated for the age of digital distribution. ■

### **Endnotes**

1. 17 U.S.C. § 109(a).
2. HALLIE ERMINE RIVES, *THE CASTAWAY* (1904). The book itself is dreadful. Even contemporary reviewers found it overwrought. *See* Review, *Byron in Fiction*, N.Y. TIMES (May 28, 1904) (“Her story is pitched in a somewhat high key, and the colors are applied with a lavish brush.”).
3. 210 U.S. 339 (1908).
4. *Id.* at 351.
5. *Id.*
6. This, of course, isn’t the whole story of copyright’s first-sale doctrine. There are a number of pre-*Bobbs-Merrill* cases that presaged its holding and, in some ways, recognized an even broader copyright exhaustion principle. These cases are explored in detail in Aaron K. Perzanowski & Jason Schultz, *Digital Exhaustion*, 58 UCLA L. REV. \_\_\_ (forthcoming 2011), available at <http://www.ssrn.com/link/Wayne-State-U-LEG.html>.
7. *See Kindle (Latest Generation) License Agreement and Terms of Use*, AMAZON.COM (July 28, 2010), [http://www.amazon.com/gp/help/customer/display.html/ref=hp\\_left\\_sib?ie=UTF8&nodeId=200506200](http://www.amazon.com/gp/help/customer/display.html/ref=hp_left_sib?ie=UTF8&nodeId=200506200) (“Unless specifically indicated otherwise, you may not sell, rent, lease, distribute, broadcast, sublicense, or otherwise assign any rights to the Digital Content or any portion of it to any third party, and you may not remove or modify any proprietary notices or labels on the Digital Content.”).
8. *See Coming Soon for Kindle*, AMAZON.COM (Oct. 22, 2010), [http://www.amazon.com/tag/kindle/forum/ref=cm\\_cd\\_tfp\\_ef\\_tft\\_tp?encoding=UTF8&cdForum=Fx1D7SY3BVSESG&cdThread=Tx1G2UIO9PJO50V&displayType=tagsDetail](http://www.amazon.com/tag/kindle/forum/ref=cm_cd_tfp_ef_tft_tp?encoding=UTF8&cdForum=Fx1D7SY3BVSESG&cdThread=Tx1G2UIO9PJO50V&displayType=tagsDetail) (“Each book can be lent once for a loan period of 14-days and the lender cannot read the book during the loan period. Additionally, not all e-books will be lendable—this is solely up to the publisher or rights holder, who determines which titles are enabled for lending.”).
9. *See generally Digital Exhaustion*, *supra* at note 6.
10. *See* U.S. COPYRIGHT OFFICE, LIBRARY OF CONG., DMCA SECTION 104 REPORT 75 (2001), available at [http://www.copyright.gov/reports/studies/dmca/dmca\\_study.html](http://www.copyright.gov/reports/studies/dmca/dmca_study.html).
11. *See* 17 U.S.C. § 1201(b)(1).