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## Confused, Frustrated, and Exhausted: Solving the U.S. Digital First Sale Doctrine Problem Through the International Lens

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# NOTES

## Confused, Frustrated, and Exhausted: Solving the U.S. Digital First Sale Doctrine Problem Through the International Lens

### ABSTRACT

*Users worldwide enjoy digital goods such as music and e-books on a daily basis. They have become a major part of people's lives, with uses ranging from lighthearted entertainment to serious educational pursuits. In many cases, convenience and affordability make digital goods more preferable than their analog counterparts. However, users often cannot use digital goods as freely as they would analog goods. Courts, legislation, and businesses prohibit those users, accustomed to reselling unwanted hard-copy books or vinyl records, from reselling digital books and music. This confuses users as to what they can actually do with their digital goods. This Note proposes that the United States adopts a digital first sale doctrine based on normative principles pulled from E.U. and Canadian copyright law.*

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## I. INTRODUCTION

Now more than ever, consumers can enjoy copyrighted works in digital form. Smartphones and e-readers allow users to download music and books at the click of a button. Millions of vinyl records and compact discs now fit on a single hard drive the size of a book. The digital revolution has brought with it a level of convenience and affordability unimagined by previous generations of consumers.

Harsh use restrictions, however, cripple consumer enjoyment of the digital revolution.<sup>1</sup> Users are often prohibited from using digital products as they expect.<sup>2</sup> For example, a user is often forced to repurchase digital files if she wants to put the same song on multiple devices.<sup>3</sup> Digital confusion results from this disconnect between a given user's expectation of their scope of enjoyment of digital goods and its legal reality. As a result, a three-way legal tug-of-war is occurring between governments, copyright stakeholders (such as artists), and users to determine how to manage the digital revolution.

Since copyright's inception, governments around the world have had difficulty making copyright laws that keep pace with technology's

1. WILLIAM PATRY, *HOW TO FIX COPYRIGHT 2* (2013) ("If we want wonderful things to come true, we must do more than believe they will; we must ensure they do. Ensuring they do requires, at a minimum, that copyright laws are consistent with prevailing markets and technologies.").

2. See *A Case Study for Consensus Building: The Copyright Principles Project: Hearing Before the H. Comm. on Courts, Intellectual Prop. and the Internet Comm. on the Judiciary*, 113th Cong. 7, 9 (2013) (statement of Daniel Gervais, Professor of Law, Vanderbilt University Law School). Prohibitions such as technological locks have led to what Professor Gervais has coined as "digital frustration." *Id.* at 4. This Note builds on that concept and suggests that consumers are not only frustrated but also confused as to how they can use digital goods.

3. This scenario has been remedied in some cases through services such as iTunes Match, iCloud, and the Amazon Kindle Cloud, which allow users to download purchased digital files onto multiple verified devices in certain cases. See, e.g., *iTunes Store – Terms and Conditions*, *infra* note 53 and accompanying text. Subscription services such as Beats Music and Spotify have also provided a partial remedy, but the business model is likely unsustainable for the music industry. See *infra* notes 177–81 and accompanying text.

ever-increasing ability to make works available to the public.<sup>4</sup> Just as the Guttenberg printing press made printed books more accessible, modern innovations—high-speed Internet, high-capacity media storage, and high-fidelity media file formats, for example—have made it easy for authors to disseminate copyrighted works in digital format globally. The mechanics of digital media, however, bring various questions to light that do not apply to physical media. These questions revolve around what legal rights attach to the act of purchase and resale: whether the purchase of digital media produces ownership or a license and whether the resale of a digital good across the Internet technically involves infringement.<sup>5</sup> In particular, because users of digital music and books generally expect to use their digital goods in the same manner as physical equivalents, digital confusion abounds.<sup>6</sup> Disputes arise around fair use, copying, and exhaustion.<sup>7</sup>

Digital confusion is heightened by the fact that a split exists in how different countries, different political unions, and different economic unions resolve these disputes. This is largely because the international intellectual property community has dealt with digital copyright issues inconsistently.<sup>8</sup> For instance, treaties sponsored by the World Intellectual Property Organization (WIPO) have tackled, with a fairly heavy hand, circumvention of technology meant to prevent unauthorized copying by requiring that countries provide a high level of protection to copyright owners.<sup>9</sup> Meanwhile, the World Trade Organization's (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs Agreement) recognizes exhaustion as a principle but has largely left the implementation of the exhaustion doctrine to signatory countries.<sup>10</sup>

Exhaustion, known in the United States as the "first sale doctrine," limits the ability of the copyright holder to control a work of

4. See James Dewar, *The Information Age and the Printing Press: Looking Backward to See Ahead*, RAND (1998), <http://www.rand.org/pubs/papers/P8014/index2.html#fn0> ("Copyrights and patents evolved slowly in response to perceived problems of intellectual ownership emanating from the unique properties of printing.").

5. See *infra* Part III.

6. See *infra* Part II.

7. See *infra* Part III.

8. Compare, e.g., WIPO Performances and Phonograms Treaty art. 18, Dec. 20, 1996, 2186 U.N.T.S. 203, S. TREATY DOC. No. 105-17 (1997) [hereinafter WPPT], and WIPO Copyright Treaty art. 11, Dec. 20, 1996, 2186 U.N.T.S. 121, S. TREATY DOC. No. 105-17 (1997) [hereinafter WCT] (requiring member countries to provide protection against circumvention of effective technological measures implemented by copyright owners), with Agreement on Trade-Related Aspects of Intellectual Property Rights art. 6, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299 ("[N]othing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.").

9. *Id.*

10. *Id.*

art once it has been legally sold.<sup>11</sup> The United States does not recognize exhaustion in digital goods.<sup>12</sup> However, the European Union allows users to resell digital software distributed through a physical format (such as a DVD) as long as the original owner no longer has access to the product after it is sold.<sup>13</sup>

This Note suggests that to facilitate the dissemination of intellectual property in a global culture, it is imperative that countries eliminate digital confusion by coming to a consensus on the topic of digital exhaustion.<sup>14</sup> Doing so will align international copyright laws, facilitate a global distribution of cultural goods, allow authors to be fairly compensated for their work, leave room for technology to advance, and, most importantly, provide the public with certainty in their usage of digital goods, allowing them to enjoy culture and take advantage of secondary markets.

Part II will define and explore the problem of digital confusion through a case study of the interplay between copyright laws and the changing formats of the U.S. music industry from the 1970s to the present. Part III will explore how the exhaustion doctrine has been addressed internationally, looking first at WIPO and WTO agreements, then at how the United States, the European Union, and Canada have implemented the exhaustion principle through statutes. Part IV examines the norms found in each regime. Finally, Part V suggests that the United States adopt a digital first sale doctrine in light of national and international norms and user expectations.

## II. THE EVOLUTION OF DIGITAL CONFUSION: THE UNITED STATES MUSIC MARKET AS AN EXAMPLE

Digital confusion stems from overregulation of nascent technologies.<sup>15</sup> Overregulation occurs when a legislature passes regulatory laws before it fully understands the impact regulations will have on a technology's development.<sup>16</sup> When prospective users

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11. 17 U.S.C. § 109(a) ("Notwithstanding the [author's exclusive right of distribution], 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."); *see also* *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908) (limiting the copyright owner's exclusive right of distribution to the initial sale and remarking, "[O]ne who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it.>").

12. *See infra* Part III.B.

13. *See infra* Part III.C.

14. *See infra* Part IV.

15. *See* Daniel Gervais, *The Regulation of Inchoate Technologies*, 47 HOUS. L. REV. 665, 702 (2010).

16. *See id.*

experience digital confusion in relation to a technology, this confusion can stunt innovation, economic growth, and the dissemination of that technology.

This concept of digital confusion, as well as its harmful effect, is best illustrated through a history of wrestling matches between music consumers, record labels, and technology entities.<sup>17</sup> Author's rights in the United States<sup>18</sup> seem to have expanded with each innovation and subsequent change in the Copyright Act. Meanwhile, user rights have diminished. Today, user expectations are not aligned with what users can actually do with a copyrighted piece of digital media.<sup>19</sup>

### *A. Physical Expectation: The Balance of Rights in the Music Industry*

Until the 1980s, record labels generally controlled how users interacted with music purchases through label-produced vinyl records and cassette tapes.<sup>20</sup> When purchasing a new vinyl or cassette, users had no choice in song order and generally could not preview an entire album before purchasing it.<sup>21</sup>

Despite the music industry's control, a balance of rights existed under the fair use and fair sale doctrines. The fair use doctrine allowed users to make copies of music they owned as long as it was a personal use copy and not a copy meant for resale.<sup>22</sup> The first sale doctrine—the United States' version of copyright exhaustion—prevented a copyright owner from controlling the resale of the copies

17. See generally STEVE KNOPPER, *APPETITE FOR SELF-DESTRUCTION: THE SPECTACULAR CRASH OF THE RECORD INDUSTRY IN THE DIGITAL AGE* (2009) (chronicling music industry formats and consumption patterns from the use of vinyl and cassette tapes in the 1970s through the proliferation of digital music and MP3s in the twenty-first century).

18. The United States was chosen because it has been an innovator or early adopter of technologies used in the music industry. See generally MARK COLEMAN, *PLAYBACK* (2003) (describing the evolution of audio technology and its implementation in the recorded music industry). Additionally, it is one of the developed countries that have adopted treaties and passed laws relating to digital copyright and, consequently, would be potentially be affected by a set of norms endorsed by an international intellectual property organization. See *infra* note 37 and accompanying text (discussing the United States' implementation of the WCT and WPPT through the Digital Millennium Copyright Act).

19. See generally LAWRENCE LESSIG, *FREE CULTURE* (2008) (examining how authors' rights have expanded in U.S. copyright since the last copyright act was passed, the role of big business and media in obtaining those author rights, and the shift in users' expectations in how media is consumed).

20. See *An Audio Timeline*, AUDIO ENGINEERING SOCIETY, <http://www.aes.org/aeshc/docs/audio.history.timeline.html> (last visited Oct. 15, 2013) (listing dates popular audio formats were invented and used).

21. Unless the album was played on the radio or you heard it through a friend.

22. See *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

it put onto the market.<sup>23</sup> Though playlists were fixed on vinyl records and cassette tapes, the fair use doctrine allowed users to rearrange the order of songs and make compilations of their favorite albums by recording music from an original source to another cassette.<sup>24</sup> Audio quality, however, degraded significantly with each recording.<sup>25</sup> Additionally, users were not totally at a loss if they did not like or grew tired of an album: under the first sale doctrine, users could sell their records and cassettes, often to used record stores for cash or store credit, at a discounted price.<sup>26</sup>

Digital audio formats initially caused little disruption to the balance on both sides in the late 1980s and early 1990s. The record industry adopted the compact disc (CD), which provided listeners with pristine copies of sound recordings.<sup>27</sup> Users were initially slow to cross over to the format because doing so required them to first purchase an expensive CD player.<sup>28</sup> However, customers soon realized the CD's benefit when record labels started rereleasing popular catalog albums in digital format.<sup>29</sup> Listeners eventually shifted to the new format because CDs were more convenient and durable than cassettes.<sup>30</sup> However, users were still locked into low-

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23. See 17 U.S.C. § 109.

24. See *Sony*, 464 U.S. at 449 (establishing "time-shifting for private home use" as a "non-commercial, nonprofit activity" covered under the fair use doctrine). See generally THURSTON MOORE, *MIX TAPE: THE ART OF CASSETTE CULTURE* (2005) (describing the practice and culture behind making mixtapes).

25. See, e.g., Duncan Branley, *Making and Managing Audio Recordings*, in *RESEARCHING SOCIETY AND CULTURE* 214 (Clive Seale ed., 2d ed. 2004) ("Each time you make copies of analogue cassettes the quality degrades from the original. Unless you are using very high quality hardware and media, the copies may soon become very difficult to work with.").

26. See generally BRETT MILANO, *VINYL JUNKIES: ADVENTURES IN RECORD COLLECTING* (2003) (discussing the record collecting culture).

27. See KNOPPER, *supra* note 17, at 15–65.

28. See Neil Gandal et al., *The Dynamics of Technological Adoption in Hardware/Software Systems: The Case of Compact Disc Players*, 31 *RAND J. ECON.* 1 (2010).

29. See KNOPPER, *supra* note 17, at 15–65.

30. The multi-disc CD player's proliferation into cars played a big part in the CD becoming the more convenient option. See Chris Haak, *The Cassette Deck is Dead; Are CD Players Next?*, *AUTOSAVANT* (Mar. 9, 2011), <http://www.autosavant.com/2011/03/09/the-cassette-deck-is-dead-are-cd-players-next/> [perma.cc/M8uH-LGAY] (archived Jan. 29, 2015) ("CDs . . . were clearly a superior alternative to cassette tapes. Six-disc changers eliminated the need to shuffle discs and kept the driver's attention on the road, while providing high-quality, distortion-free music."); see also Brian McCollum, *Cassette Tape Sales on Last Legs as CDs Take Control of Market*, *LUBBOCK ONLINE* (Jan. 5, 1997), <http://lubbockonline.com/news/010597/cassette.htm> [perma.cc/BK9R-X79u] (archived Jan. 29, 2015) ("But CDs are nearly as portable, and definitely more durable, which is why they've trampled over the cassette's longtime private kingdom: the car stereo.").

quality cassette reproductions if they wanted to rearrange the order of songs or make mix-tapes.<sup>31</sup>

After the introduction of the digital audio tape (DAT) and MiniDisc read and write formats, which allowed users to make perfect digital recordings of purchased CDs, record labels became concerned about lost sales and lobbied Congress for protection.<sup>32</sup> This lobby produced the Audio Home Recording Act of 1992 (AHRA).<sup>33</sup> The AHRA was landmark legislation because it introduced digital copy protection and anti-circumvention measures into U.S. copyright law.<sup>34</sup> Specifically, the AHRA required digital audio recording devices to have a serial copy management system to prevent the devices from making copies of an already copied digital recording.<sup>35</sup>

While the AHRA did not dramatically affect user expectations, its follow-up, the Digital Millennium Copyright Act (DMCA), would profoundly impact the balance of rights between music industry copyright holders and users. At the time of the AHRA's passage, the tape-based digital audio recorder technology that the legislation targeted was not yet widespread, and society had outgrown DAT and MiniDiscs before the laws could really have an affect on user behavior.<sup>36</sup> Rather than targeting specific recording platforms, the DMCA implemented two 1996 WIPO treaties: the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPT).<sup>37</sup> In doing so, it provided digital copy protection requirements for manufacturers and outlined remedies for the circumvention of this digital copy protection.<sup>38</sup>

During the first decade of the twenty-first century, digital music went through a "wild west" period as users quickly grew accustomed to consuming music when and how they wanted to with the introduction of both the MP3 digital format and the introduction of the MP3 trading platform, or "peer-to-peer network."<sup>39</sup> Personal

31. See KNOPPER, *supra* note 17, at 75–79.

32. *Id.*

33. See *Digital Music Technology and Copyright Timeline*, DILANCHIAN (Feb. 8, 2007, 9:50 AM), <http://www.dilanchian.com.au/index.php/lightbulb-114/202-digital-music-technology-and-copyright-timeline> [<http://perma.cc/EFP3-87K2>] (archived Jan. 9, 2015).

34. See 17 U.S.C. § 1002.

35. Benton J. Gaffney, *Copyright Statutes that Regulate Technology: A Comparative Analysis of the Audio Home Recording Act and the Digital Millennium Copyright Act*, 75 WASH. L. REV. 611, 611 (2000) (citing the American Home Recording Act, 17 U.S.C. § 1002(a) (1994)).

36. *Id.* at 612.

37. Marybeth Peters, *The Legal Perspective on Exhaustion in the Borderless Era: Consideration of a Digital First Sale Doctrine for Online Transmissions of Digital Works in the United States*, in *GLOBAL COPYRIGHT: THREE HUNDRED YEARS SINCE THE STATUTE OF ANNE, FROM 1709 TO CYBERSPACE* 323–33 (Lionel Bently, Uma Suthersanen & Paul Torremans eds., 2010).

38. *Id.*

39. See generally KNOPPER, *supra* note 17, at 113–49.

computers became ubiquitous and programs hit the market that allowed users to “rip” music from CDs. The process of ripping converted audio, with no loss of quality, from CDs into MP3 files that users could store on their computers.<sup>40</sup> Listeners now had an affordable method to make custom “mix CDs,” which were much more durable and less noisy than the cassettes of the late 1980s.<sup>41</sup> Peer-to-peer programs such as Napster and Kazaa popped on the scene and allowed anyone with a computer and Internet connection to trade MP3 music files online.<sup>42</sup> For users acting within the limits of fair use, the advent of ripping software and the MP3 merely enhanced listening experiences.<sup>43</sup> On the other end of the spectrum, users were infringing copyrights by reproducing and distributing music on peer-to-peer networks.<sup>44</sup>

The music industry leaned on rights granted under the DMCA’s copy protection and anti-circumvention measures to use digital rights management software (DRM) to curb the rapid decline in record sales from infringement during the “wild west” period.<sup>45</sup> In what one scholar deemed “the digital enforcement age,”<sup>46</sup> labels started to place DRM on legally purchased CDs that prevented listeners from ripping the material.<sup>47</sup> Labels vilified every user attempt to copy a digital music file, which resulted in the popular portrayal of record labels as greedy media companies out of touch with their customers’ culture. Despite user protests, labels vigorously enforced this anti-piracy scheme through stealth copy prevention measures and lawsuits.<sup>48</sup>

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40. David F. Gallagher, *For the Mixtape, A Digital Upgrade and Notoriety*, N.Y. TIMES (Jan. 30, 2003), <http://www.nytimes.com/2003/01/30/technology/for-the-mix-tape-a-digital-upgrade-and-notoriety.html?src=pm> (subscription required).

41. See Noz, *A (Not at All Definitive) History of Hip Hop Mixtapes*, RED BULL MUSIC ACADEMY (Dec. 6, 2013), <http://www.redbullmusicacademy.com/magazine/history-of-mixtapes-feature> [<http://perma.cc/XG3A-S8RQ>] (archived Jan. 9, 2015) (explaining negative qualities of the cassette mixtape, such as noise transfer).

42. See KNOPPER, *supra* note 17, at 113–9 (describing the rise of Napster).

43. At one point, record companies conceded that ripping music from a legally purchased CD onto a personally owned MP3 player was “perfectly lawful” under the fair use doctrine. Transcript of Oral Argument at 11–12, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005) (No. 04-480).

44. See *infra* note 48 and accompanying text.

45. See KNOPPER, *supra* note 17, at 153–56.

46. Peter S. Menell, *In Search of Copyright’s Lost Ark: Interpreting the Right to Distribute in the Internet Age*, 13 J. COPYRIGHT L. SOC’Y U.S.A. 201, 203 (2012).

47. See KNOPPER, *supra* note 17, at 153–56.

48. See KNOPPER, *supra* note 17, at 183–87 (summarizing the Recording Industry Association of America’s string of lawsuits brought against individual consumers for downloading copyrighted music on peer-to-peer networks); see also *id.* at 222–28 (describing Sony’s use of “rootkits” to install software on consumers’ computers to thwart CD copying); see, e.g., *Capitol Records, Inc. v. Thomas-Rasset*, 692 F.3d 899 (8th Cir. 2012) (awarding record companies damages for defendant’s infringement of sound recordings via file-sharing); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001) (addressing claims that peer-to-peer network Napster was a

### B. Digital Confusion: The Balance of Rights Shifts

Eventually, the technology industry, with Apple CEO Steve Jobs taking the lead, came up with what seemed like a solution when digital music became available for purchase online through the iTunes Store.<sup>49</sup> The iTunes Store allowed users to purchase individual licensed songs as well as entire licensed albums in a process very similar to getting music from peer-to-peer networks.<sup>50</sup> The Store, along with the increasing popularity of portable digital music players such as the iPod, ushered in a new era of digital music.<sup>51</sup> Users, expecting to legally be able to download music from stores and transfer downloaded music to multiple devices, tolerated DRM measures as a concession to the record labels that licensed their music to digital stores.<sup>52</sup> Users did not anticipate the digital eradication of their actual “ownership” in the copy of music they purchased.

Typically, when digital music is purchased, the user signs a license in a click-through agreement that essentially dictates the user’s rights to the file.<sup>53</sup> In addition to restrictions placed on how the file can be used,<sup>54</sup> the license also describes the user as a “licensee,” as opposed to an “owner.”<sup>55</sup> For instance, under the first sale doctrine a Beyoncé fan can purchase a CD, listen to it, and then sell it when she no longer wants to listen to it. However, if the fan decides to purchase a digital copy of the same album from iTunes—arguably the same transaction as purchasing the physical CD—she is met with a number of restrictions as to how she can use and dispose of the media.<sup>56</sup> These restrictions include a limit on the number of

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contributory and vicarious copyright infringer because it facilitated the sharing of copyrighted media).

49. See KNOPPER, *supra* note 17, at 157–82.

50. See *iTunes*, APPLE, <http://www.apple.com/itunes/> (last visited Jan. 9, 2015).

51. See KNOPPER, *supra* note 17, at 157–82.

52. See Cyrus Farivar, *The Music Industry Dropped DRM Years Ago. So Why Does It Persist on E-Books?*, ARS TECHNICA (Dec. 24, 2012, 8:02 AM), <http://arstechnica.com/business/2012/12/the-music-industry-dropped-drm-years-ago-so-why-does-it-persist-on-e-books/> (“Most people don’t care about the ethics of DRM or about the finer points of copyright policy . . . . What people care about, is being able to do what they want with the stuff that they think they have.” (internal quotation marks omitted)).

53. See Clark D. Asay, *Kirtsang and the First-Sale Doctrine’s Digital Problem*, 66 STAN. L. REV. ONLINE 17, 19 (2013) (describing the click-through process); see, e.g., *iTunes Store – Terms and Conditions*, APPLE, <http://www.apple.com/legal/internet-services/itunes/us/terms.html> [<http://perma.cc/28DG-7S3E>] (archived Jan. 13, 2015) (last visited Nov. 4, 2013) (delineating what an iTunes user can do with files purchased from the store).

54. See *infra* notes 131–35.

55. Asay, *supra* note 53, at 19.

56. See *Capitol Records, LLC v. ReDigi, Inc.*, 934 F. Supp. 2d 640 (S.D.N.Y. Mar. 30, 2013) (holding the first sale doctrine inapplicable to digital goods); Asay, *supra* note 53, at 18–19; *iTunes Store – Terms and Conditions*, *supra* note 53; see also *infra* Part III.B.

“associated devices” on which she can store a purchased file.<sup>57</sup> The restrictions limit the frequency with which she can transfer an “associated device” between user accounts.<sup>58</sup> As U.S. law is currently interpreted, the restrictions render her unable to resell the file in the digital marketplace.<sup>59</sup>

This restriction on digital resale under the first sale doctrine is largely based on a technicality: in order to sell a copy online, an additional copy must be made, resulting in an infringement on the author’s reproduction right.<sup>60</sup> Throughout the physical era, users routinely resold physical copies of music they no longer used. Even though technology has evolved to facilitate a transfer of ownership, a U.S. district court has interpreted this as outside of the first sale doctrine’s bounds.<sup>61</sup> The court’s view strikes an imbalance in author and user rights that needs to be adjusted in light of user expectations.

### III. INTERNATIONAL EXHAUSTION: DISSONANCE AMONG THE NATIONS

Developed countries have different views on how digital exhaustion should be handled.<sup>62</sup>

Generally, exhaustion prevents an author from placing restrictions on the free circulation and resale of a copyrighted product.<sup>63</sup> The owner of the purchased product is allowed to sell the original product, but is prevented from reproducing it.<sup>64</sup> Logically, the owner of the purchased product is also disallowed from reproducing a product and selling a reproduction and keeping the original product.<sup>65</sup> As demonstrated below, international treaties and trade agreements have given countries freedom to operate concerning exhaustion, which has resulted in different regimes.

One challenge in addressing international exhaustion is the need to accommodate two systems of protection: (1) the copyright system and (2) the “author’s rights” systems.<sup>66</sup> The copyright system has

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57. *iTunes Store – Terms and Conditions*, *supra* note 53.

58. *Id.*

59. *ReDigi, Inc.*, 934 F. Supp. 2d, at 654–56.

60. *See id.*

61. *Id.*; *see also infra* note 123–30 and accompanying text.

62. *See infra* Parts III.B–D.

63. PETER CIMENTAROV, *THE EXHAUSTION OF COPYRIGHT IN THE DIGITAL ENVIRONMENT: ARE THE RULES SUITABLE TO DEAL WITH DIGITALLY TRANSMITTED GOODS? A COMPARATIVE APPROACH BETWEEN THE USA AND THE EU* 18 (2011).

64. *Id.*

65. *See id.* (explaining how exhaustion generally does not apply to the author’s reproduction right).

66. The copyright system has primarily been adopted in the United States, the United Kingdom, and former Anglo-Saxon colonies. The author’s rights system is popular in continental European countries, such as France and Germany, and their

primarily been adopted in the United States, the UK, and former Anglo-Saxon colonies.<sup>67</sup> The author's rights system is popular in continental European countries, such as France and Germany.<sup>68</sup> The key difference between the two systems is the policy that drives each. The copyright system is justified by a utilitarian theory; that is, protecting the products of an author's creativity stimulates creation, which enhances the general public's wellbeing.<sup>69</sup> Conversely, the author's rights system is heavily influenced by natural law. Under natural law no benefit to society is required; instead, the protection of an author's work is justified because "creation establishes a bond between the author and his work."<sup>70</sup> The rights each system affords authors, and to some extent users, are heavily guided by these general principles.<sup>71</sup> Many countries that recognize copyright give authors the exclusive rights of, among other things, distribution and reproduction.<sup>72</sup> These rights are often countered by certain limitations and exceptions that allow the public to make certain uses of the author's copyrighted work.<sup>73</sup> Universally, exhaustion is one of the most significant and controversial of these limitations.<sup>74</sup>

Three general policy considerations are common throughout various exhaustion regimes: (a) reward, (b) reconciliation of the transfer of property rights in a movable copy between author and buyer, and (c) encouraging freedom of trade to increase the number of cultural assets available to the public.<sup>75</sup> While the benefits of digital distribution clearly support the last policy consideration, the reward consideration creates an interesting conundrum for legislators and scholars. Particularly, the license used to control digital distribution and ensure the author receives the full reward to which he is entitled simultaneously extends his monopoly, and his ability to collect a reward, beyond what he would typically enjoy with a physical work.<sup>76</sup> Additionally, there is debate as to whether a digital copy is

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former colonies. See generally SILKE VON LEWINSKI, INTERNATIONAL COPYRIGHT LAW AND POLICY 33 (2008).

67. See *id.* at 35.

68. See *id.*

69. See *id.* at 38.

70. *Id.*

71. *Id.*

72. See PAUL GOLDSTEIN, INTERNATIONAL COPYRIGHT: PRINCIPLES, LAW, AND PRACTICE 253 (2001).

73. *Id.* at 253.

74. See *id.* at 254–56 (describing exhaustion's significance).

75. André Lucas, *International Exhaustion*, in GLOBAL COPYRIGHT, *supra* note 37, at 306.

76. See *Parfums Givenchy, Inc. v. C & C Beauty Sales Inc.*, 832 F. Supp. 1378, 1389 (C.D. Cal. 1993) ("[T]he distribution right and the first sale doctrine rest on the principle that the copyright owner is entitled to realize no more and no less than the full value of each copy or phono record upon its disposition."); *infra* notes 131–35 and accompanying text for a discussion of how licenses control digital distribution and extend the life of an author's monopoly and potential reward.

“movable.”<sup>77</sup> The difficulty in reconciling these concepts on an international level is evident in the hands-off approach treaties and trade agreements take with the exhaustion doctrine.

International treaties, while providing an exclusive distribution right, have failed to develop a uniform international exhaustion doctrine that explains when such a right ends.<sup>78</sup> Instead, they have generally included clauses that allow signatory countries to determine how to apply the controversial doctrine to their individual copyright laws. Given the hands-off treatment found in the WIPO Internet Treaties and the TRIPS Agreement, countries have essentially been given a blank slate to craft their own exhaustion principles, so long as they (a) do not infringe on the rights of other countries and (b) pass a three-step test presented in the treaties.<sup>79</sup> This has resulted in vastly different exhaustion principles. Some naturally accommodate a digital exhaustion doctrine (based on exclusive rights attached to the principle) and others that provided barriers to digital resale.

#### A. *The Text of the WIPO Internet Treaties and the TRIPS Agreement*

The 1996 World Copyright Treaty (WCT) and World Performances and Phonograms Treaty (WPPT)—collectively known as “The Internet Treaties”—were negotiated by the World Intellectual Property Organization (WIPO) to bring international copyright norms up to par with user expectations in the Internet age.<sup>80</sup> While the treaties addressed both the transmission of digital works and the digital transfer of physical goods, they only applied the exhaustion principle to physical goods due to the complicated exclusive rights surrounding copyright.<sup>81</sup>

The Internet Treaties provide an exclusive right of distribution for tangible physical copies of works, the “making available right.”<sup>82</sup> The making available right gives copyright holders “the exclusive right of authorizing the making available to the public of the original and copies” of the copyrighted work or performance.<sup>83</sup> While both

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77. André Lucas, *International Exhaustion*, in GLOBAL COPYRIGHT, *supra* note 37, at 306.

78. See CIMENTAROV, *supra* note 63, at 24–26 (pointing out the lack of a harmonized exhaustion doctrine at the international level).

79. See *infra* Part III.A.

80. Marybeth Peters, *The Legal Perspective on Exhaustion in the Borderless Era: Consideration of a Digital First Sale Doctrine for Online Transmissions of Digital Works in the United States*, in GLOBAL COPYRIGHT, *supra* note 37, at 332.

81. See *id.*

82. *Id.*

83. See *id.* (quoting Article 6 of the WCT).

treaties permit countries to limit this right, they do not require it.<sup>84</sup> Specifically, countries may “determine the conditions, if any, under which the exhaustion of the right . . . applies after the first sale or other transfer of ownership of the original or a copy of the work with . . . authorization.”<sup>85</sup> The WCT further clarifies that the distribution right only applies to tangible objects.<sup>86</sup>

Unlike physical works, the Internet Treaties protect digital works through a “right of communication” in addition to the making available right attached to physical works.<sup>87</sup> Copyright holders are granted both “the exclusive right of authorizing any communication to the public of their works” and “the exclusive right of making [that work] available to the public.”<sup>88</sup> Because of the additional right of communication, the WCT does not provide an exhaustion provision, as the principle has traditionally only applied to the right of distribution attributed to tangible works.<sup>89</sup>

The Diplomatic Conference on the WCT had difficulty agreeing on the exhaustion doctrine.<sup>90</sup> Accordingly, the treaty does not prescribe rules on the nature of acts that will exhaust the distribution right, nor does it delineate whether exhaustion will have international implications.<sup>91</sup> Instead, the treaty makes clear that it will “not affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion right . . . applies after the sale or other transfer of ownership of the original or a copy of the work with the authorization of the author.”<sup>92</sup>

The Internet Treaties set precedent based on norm proposals, instead of setting norms based on precedent.<sup>93</sup> Accordingly, signatory countries were forced to implement laws to conform to the Treaties’ requirements without being familiar with usage patterns and other important norms associated with the technology being regulated.<sup>94</sup> Additionally, the parties to the Internet Treaties are permitted to “appropriately extend into the digital environment limitations and exceptions in their national laws which have been considered

84. *Id.*

85. *Id.*

86. *Id.* (“[T]he expressions ‘copies’ and ‘original and copies’, being subject to the right of distribution and the right of rental . . . refer exclusively to fixed copies that can be put into circulation as tangible objects.”).

87. *See id.*

88. *Id.* (quoting Article 8 of the WCT) (internal quotation marks omitted).

89. *See id.*

90. *See* PAUL GOLDSTEIN, INTERNATIONAL COPYRIGHT: PRINCIPLES, LAW, AND PRACTICE 254 (2001).

91. *Id.*

92. *Id.* at 255–56 (quoting WIPO Copyright Act Article 6(2)).

93. *See* Abdel Latif, *The WIPO Internet Treaties*, in TRADE GOVERNANCE IN THE DIGITAL AGE 379 (Mira Burri & Thomas Cottier eds., 2012).

94. *See id.* at 382.

acceptable under the Berne Convention.”<sup>95</sup> New exceptions and limitations are also allowed provided they survive the Berne Convention’s “three-step test,”<sup>96</sup> which means they must be “confined to certain special cases that don’t conflict with a normal exploitation of the work.”<sup>97</sup>

The Agreement on the Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) was adopted to “contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.”<sup>98</sup> Despite the treaty’s focus on balance, it explicitly leaves exhaustion as an issue for signatories to handle, stating “for the purpose of dispute settlement . . . nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.”<sup>99</sup> Exhaustion was mentioned to provide a baseline understanding that the doctrine was to be recognized in some way, but the negotiating body found it too complicated to reach a consensus on how to implement the principle.<sup>100</sup>

### B. *The United States Regime: No Digital Resale Allowed*

The Intellectual Property Clause of the United States Constitution grants Congress the 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.”<sup>101</sup> Congress has elected to do this through the Copyright Act.<sup>102</sup> While the Intellectual Property Clause implies a user right by placing time restraints on authors’ exclusive rights,<sup>103</sup> legislation has favored author’s digital rights that go beyond traditional copyright protection. Digital legislation like the DMCA has protected authors’

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95. See *id.* at 372 (citing Article 2(a) of the WPPT).

96. *Id.*

97. WCT, *supra* note 8, art. 10; WPPT, *supra* note 8, art. 16.

98. TRIPS: Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, THE LEGAL TEXTS: THE RESULTS OF THE URUGUAY ROUND OF MULTILATERAL TRADE NEGOTIATIONS 320 (1999), 1869 U.N.T.S. 299, art. 7 [hereinafter TRIPS Agreement].

99. TRIPS Agreement, *supra* note 102, art. 6.

100. See DANIEL GERVAIS, THE TRIPS AGREEMENT: DRAFTING HISTORY AND ANALYSIS 112 (3d ed. 2008) (noting the difficulty in negotiating a universal exhaustion doctrine).

101. U.S. CONST. art. I, § 8, cl. 8.

102. 17 U.S.C. 101 (2012).

103. See U.S. CONST. art I, § 8, cl. 8.

rights at the expense of user expectations and created confusion as to how users can utilize digital goods.<sup>104</sup>

The Copyright Act contemplates a balance between author and user rights. Section 106(3) of the Copyright Act grants a copyright owner the exclusive right “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.”<sup>105</sup> However, the Copyright Act places an exhaustion limitation on this exclusive right, known as the first sale doctrine, in section 109(a):

Notwithstanding the provisions of section 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.<sup>106</sup>

Section 109(a) allows users to resell legally purchased, copyrighted physical works in both brick-and-mortar and online stores. It also allows users to gift, trade, and borrow these works.<sup>107</sup>

Limiting this balance in the digital realm is confusing to an ordinary consumer. While judicial decisions regarding physical first sale favor the user, decisions regarding digital first sale implement stringent laws to enforce author’s rights at the expense of user rights, expectations, and norms. By disallowing resale based on a technicality, instead of functionality and user expectations, U.S. copyright confuses the ordinary consumer, who does not consider technical copyright implications. The consumer is more concerned with being able to use the purchased digital media.

This limitation of digital rights also potentially conflicts with the Constitution’s Intellectual Property Clause.<sup>108</sup> By limiting the first sale doctrine based on a *licensing* agreement, courts are stepping into paracopyright territory and sidestepping the clause’s “limited Time” restriction. Additionally, courts are potentially hindering, rather than promoting, “progress of the Sciences.”<sup>109</sup>

The Supreme Court first recognized the first sale doctrine in *Bobbs-Merrill Co. v. Straus*, when the Court set limits to a copyright holder’s control over an initial sale by recognizing that “one who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it.”<sup>110</sup> Statutory provisions have either

104. See *supra* notes 45–48 and accompanying text.

105. 17 U.S.C. § 106(3).

106. 17 U.S.C. § 109.

107. See Theodore Serra, Note, *Rebalancing at Resale: ReDigi, Royalties, and the Digital Secondary Market*, 93 B.U. L. REV. 1753, 1768.

108. See *supra* note 101 and accompanying text.

109. *Id.*

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

presumed or included copy physicality, recognizing copies in some way as “material objects.”<sup>111</sup>

The exhaustion principle was somewhat expanded in two decisions collectively referred to as the “geographic limitation decisions.”<sup>112</sup> In *Quality King Distributors, Inc. v. L'anza Research International, Inc.*,<sup>113</sup> the Supreme Court held that first sale rights allow for the reimporation of copyrighted works originally and lawfully made in the United States.<sup>114</sup> In *Kirtsaeng v. John Wiley & Sons, Inc.*,<sup>115</sup> the Court held that the first sale doctrine allowed for the importation of physical copyrighted books that were lawfully made and acquired abroad into the United States for resale.<sup>116</sup> Accordingly, such sales do not violate a copyright owner’s distribution right.<sup>117</sup> These decisions effectively eradicated geographic limitations of the first sale doctrine in the United States as long as the copyrighted work was lawfully made and not pirated.<sup>118</sup>

While some experts considered the geographic limitation decisions a huge victory for users,<sup>119</sup> others had more cynical opinions.<sup>120</sup> Though beneficial in theory, the actual effect of the geographic limitation decisions would be limited by the proliferation of digital goods.<sup>121</sup> There was no jurisprudence on digital exhaustion connected to an author’s distribution right.<sup>122</sup>

Commentators’ speculation about the geographic decisions’ limited effect was verified a few months after *Kirtsaeng* when a federal district court held that the exhaustion principle does not apply to digital goods.<sup>123</sup> In *Capitol Records, LLC v. ReDigi, Inc.*, the court held that the first sale doctrine was not applicable where, to facilitate resale, a file is “migrated” from one server to another then

111. Serra, *supra* note 107, at 1768–69.

112. Asay, *supra* note 53. These decisions applied the exhaustion principle to the importation of physical copyrighted goods made both inside and outside of the United States.

113. 523 U.S. 135 (1998).

114. Asay, *supra* note 53, at 17 (citing *Quality King Distributors, Inc.*, 523 U.S. at 138–40, 154).

115. 133 S. Ct. 151 (2013).

116. Asay, *supra* note 53, at 17 (citing *Kirtsaeng*, 133 S. Ct. at 1357, 1371).

117. *Id.*

118. *Id.* at 17–18.

119. *Id.* at 18.

120. *See id.* (questioning *Kirtsaeng*’s significance).

121. *See id.*

122. Jurisprudence addressing digital exhaustion existed, but the holding focused on licensing agreements negating the usual rights associated with copyright. *See id.* (citing *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1103–04 (9th Cir. 2010) (“Federal courts have held that when a recipient of a copyrighted work is a ‘licensee’ and not an ‘owner’ of a copy of the work, first-sale rights do not apply.”)).

123. *ReDigi, Inc.*, 940 F. Supp. 2d 640 (S.D.N.Y. 2013).

deleted from the original server.<sup>124</sup> ReDigi attempted to alleviate the problem of digital resale by “giv[ing] digital goods physicality, [thereby] bringing the familiar process of selling a physical good (CD, vinyl book, etc.) into the digital age.”<sup>125</sup> The company did so by allowing users to buy and sell used and pre-owned digital files online, similar to how used book or record shops allow customers to trade and sale used media from their personal libraries.<sup>126</sup> ReDigi facilitated transactions by using proprietary technology to verify files, transfer the file to its cloud-based system and remove any copies from the seller’s hard drive, ensuring no duplicates existed.<sup>127</sup> Making a functional argument, ReDigi claimed that the transfer “migrates” files, as opposed to copying them, which should not run afoul of the reproduction right and allows licenses to transfer from one user to the next when files are sold through their system.<sup>128</sup> However, the court relied on a formal analysis and held that, since the file was to be reproduced, as opposed to merely distributed, ReDigi’s method infringed upon the plaintiff record label’s exclusive right of reproduction.<sup>129</sup> Because the first sale doctrine only applies to the exclusive right of distribution, it could not be applied as an exception to the reproduction right.<sup>130</sup>

Purchasers essentially contract out of the first sale doctrine through end-user agreements such as the one provided by iTunes.<sup>131</sup> Generally, courts have held that first sale rights do not apply to a copy of a work when a recipient is a licensee.<sup>132</sup> Courts use various factors to determine whether an end-user is a licensee or owner, including whether the copyright holder labels the agreement with the end-user as a license agreement.<sup>133</sup> Courts will also consider whether the copyright holder imposes significant restrictions on the recipient’s ability to transfer the copyrighted work along with other “notable restrictions,” such as limiting the number of copies a user can make, how many computers a digital file can be used on, and whether and how often a digital file can be transferred from one computer to another.<sup>134</sup> As Professor Clark Asay puts it, “eliminating first sale rights is generally only a click-through agreement away.”<sup>135</sup>

124. *Id.* at 649–50.

125. Serra, *supra* note 107, at 1756 (internal quotations omitted).

126. *Id.* at 1757.

127. *Id.*

128. *Id.*

129. *Id.* at 649–50.

130. *Id.*

131. See *iTunes Store – Terms and Conditions*, *supra* note 53.

132. Asay, *supra* note 53 (citing *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1103–04 (9th Cir. 2010)).

133. *Id.* at 18–19 (citing *Vernor*, 621 F.3d at 1110).

134. *Id.* at 19.

135. *Id.*

The *ReDigi* decision illuminates the disconnect in the U.S. copyright system between the treatment of digital cultural goods and their physical counterparts. Rejecting the defendant technology company's first sale and fair use defenses, the *ReDigi* court acknowledged that technological advances made the statute's application of the doctrines unsatisfactory to consumers.<sup>136</sup> It also acknowledged that the U.S. Copyright Office's report on the DMCA contemplated a digital first sale doctrine but rejected it due to the perceived inequities implicated between digital copyright owners and users.<sup>137</sup>

Further, the decision highlights the imbalance between restrictions placed on digital goods and user expectations. Under a formal approach, it makes sense that the first sale doctrine does not apply to licenses and reproduced copies.<sup>138</sup> However, users expect less restricted access to their digital goods, similar to that of their physical counterparts.<sup>139</sup> Notably, the European Union and Canada give exhaustion a more functional treatment,<sup>140</sup> and the United States has the opportunity apply lessons from foreign policies as it crafts its own digital first sale doctrine.

### C. The European Union: Digital Resale Possibly Allowed

The European Union deals with exhaustion under three directives: Directive 2001/29 (Copyright Directive),<sup>141</sup> Directive 9/1996 (Database Directive),<sup>142</sup> and Directive 2009/24 (Computer Program Directive).<sup>143</sup> Recital 28 of the Copyright Directive gives the author the "exclusive right to control distribution of the work incorporated in a tangible article."<sup>144</sup> The Recital further explains that "the first sale . . . of the original of a work of copies thereof by the right holder or with his consent exhausts the right to control resale of that object[.]"<sup>145</sup> In Article 4, the Copyright Directive sets out a first sale doctrine:

136. *Id.* at 655.

137. *Id.*

138. Gervais, *supra* note 2, at 9.

139. *Id.*

140. *See infra* Parts III.C and III.D.

141. Directive 2001/29, of the European Parliament and of the Council of 22 May 2001 on the Harmonization of Certain Aspects of Copyright and Related Rights in the Information Society, 2001 O.J. (L 167) 10 (EC) [hereinafter Copyright Directive].

142. Directive 9/1996, of the European Parliament and of the Council of 11 Mar. 1996 on the Legal Protection of Databases, 1996 O.J. (L 77) 20 (EC).

143. Directive 2009/24/EC, of the European Parliament and of the Council of 23 Apr. 2009 on the Legal Protection of Computer Programs 2009 O.J. (L 111) 16 (EC).

144. Directive 2001/29, *supra* note 141, Recital 28.

145. *Id.*

1. Member States shall provide for authors, in respect of the original of their works or of copies thereof, the exclusive right to authorize or prohibit any form of distribution to the public by sale or otherwise.
2. The distribution right shall not be exhausted within the Community in respect of the original or copies of the work, except where the first sale or other transfer of ownership in the Community of that object is made by the rightholder or with his consent.<sup>146</sup>

The Computer Program Directive makes it clear that exhaustion applies to software, where it states “first sale in the Community of a copy of a program by the rightholder or with his consent shall exhaust that distribution right within the Community of that copy.”<sup>147</sup>

Similar to the United States, the European Union’s exhaustion doctrine is attached to an author’s distribution right. This would imply that both regimes treat exhaustion of digital goods the same way. However, recent jurisprudence shows that the European Union applies a functional interpretation of the exhaustion doctrine and has views directly opposite the United States.

The European Court of Justice—the European Union’s tribunal—recognized exhaustion in *UsedSoft GmbH v. Oracle International Corp.*<sup>148</sup> *UsedSoft* allowed companies and other software owners to resell software licenses they legally purchased but no longer used.<sup>149</sup> There, the court held that a software copyright owner’s distribution rights exhausted once a customer entered into a licensing agreement.<sup>150</sup> Specifically, it held that content licenses cannot prohibit transfer or resale and that downloading copyrighted software, paired with the execution of a license for its use, “form[s] an indivisible whole . . . which must be classified as a sale.”<sup>151</sup>

*UsedSoft* stands for two specific propositions that contrast starkly from the formal exhaustion principle in the United States. First, digital goods can be “objects” as referenced in Recital 28 and Article 4.<sup>152</sup> There is not a distinction as to whether the objects have to be material (though the software here was sold on physical media). Second, the licenses cannot be used to provide paracopyright protection and prevent digital resale. The court applied a functional analysis to the resale of digital goods. Though the decision only addressed software distributed through a physical platform, as opposed to digital goods in general, it potentially sets the stage for the exhaustion principle to extend to all digital goods. If the decision

146. *Id.* art. 4.

147. Directive 2009/24, *supra* note 143, art. 4(2).

148. Case C-128/11, 2012 E.C.R. I-0000.

149. *Id.*

150. *Id.*

151. Serra, *supra* note 107, at 1762 (quoting *UsedSoft* at para. 84).

152. See Copyright Directive, *supra* note 141, r. 28, art. 4.

applies to all digital goods (including music), it is a stark contrast to the U.S. first sale doctrine.<sup>153</sup>

#### D. Canada: The Possible Tipping Point

Canada appears to have a liberal approach to the first sale doctrine in general, and recent legislation and jurisprudence suggests that exhaustion would apply to digital goods. The country has taken a wait-and-see approach to implementing digital copyright statutes, and it just implemented many of the Internet Treaties' provisions in 2012 through its Copyright Modernization Act.<sup>154</sup>

Like the United States and the European Union, Canada does not explicitly confer rights to users regarding digital exhaustion. However, a general exhaustion right is attached to an author's making available right.<sup>155</sup> The Canadian Copyright Act grants sound recording authors the "sole right" to publish a sound recording for the first time, reproduce it in any material form, and rent it out or to authorize such acts.<sup>156</sup> Sound recording authors also have a right to make a work digitally available to the public.<sup>157</sup>

Exhaustion was not codified in the Canadian Copyright Act until the recent passage of Bill C-11, known as the Copyright Modernization Act.<sup>158</sup> The exhaustion doctrine in Canada now gives the author the sole right to reproduce any "substantial part" of the work<sup>159</sup> but limits the author's right to sell or transfer ownership of a tangible work if it has already been legally sold in the marketplace.<sup>160</sup> This seems to imply that a copyright owner's right exhausts after the first sale. Additionally, attaching exhaustion to a "making available" right (as opposed to a distribution right like in the United States and European Union) potentially makes it easier to apply a digital first sale doctrine.

153. See *supra* Part III.B.

154. Copyright Modernization Act, S.C. 2012, c. 20 (Can.).

155. Bill C-11 (Can.).

156. Copyright Act, R.S.C. 1985, c. C-42, § 18 [hereinafter Copyright Act (Canada)].

157. *Id.* Sound recording authors have the right:

(a) to make it available to the public by telecommunication in a way that allows a member of the public to have access to it from a place and at a time individually chosen by that member of the public and to communicate it to the public by telecommunication in that way; and (b) if it is in the form of a tangible object, to sell or otherwise transfer ownership of the tangible object, as long as that ownership have never been transferred in or outside Canada with the authorization of the owner of the copyright in the sound recording.

*Id.*

158. Bill C-11 (Can.).

159. Copyright Act (Canada), *supra* note 156, at § 3(1) (Can.).

160. See *id.* § 3(1)(j).

Unlike the United States, Canada's recent jurisprudence regarding fair dealings has implicated a broad user right in copyright that would justify a digital first sale doctrine.<sup>161</sup> While there is no jurisprudence addressing a Canadian exhaustion doctrine under this new legislation, the Supreme Court of Canada addressed the issue pre-Bill C-11 in *Théberge v. Galerie d'Art du Petit Champlain Inc.*<sup>162</sup> There, the court held that the appellant art gallery had not infringed the respondent artist's reproduction right by transferring work from paper to canvas.<sup>163</sup> The Court seemed to recognize exhaustion as a principle that balanced author and user rights, emphasizing the *public's* right to decide what happens to an authorized copy once it has been purchased.<sup>164</sup> Notably, neither Bill C-11 nor *Théberge* explicitly limit the doctrine to physical goods, which suggests that exhaustion would apply in some cases to digital goods as well.

Canada's slant toward user rights further suggests that exhaustion would apply to digital goods. For instance, Canada's recent adoption of Bill C-11, which implements the Internet Treaties, was long contemplated before it was adopted, and the country did not adopt technology protection measures like the United States' DMCA for years, despite similar threats of piracy and file sharing.<sup>165</sup> Canadian legal scholarship supports the idea as well. David Vaver, a leading authority on Canadian copyright, suggests that a series of fair dealings cases from the Supreme Court of Canada have created an explicit user right in Canadian copyright that would balance the authors' exclusive rights.<sup>166</sup> First, he points to the decision in *Society of Composers, Authors, and Music Publishers v. Bell Canada*, where the court held that (a) users had a right to preview music on commercial websites under the fair dealing doctrine and (b) SOCAN was not entitled to royalties from those previews.<sup>167</sup> In doing so, he noted the court's emphasis on employing user rights "as an important tool to balance protection and access."<sup>168</sup> He then references *CCH*

161. See *supra* notes 155–57 and accompanying text.

162. [2002] 2 S.C.R. 336 (Can.).

163. *Id.*

164. *Id.* ¶¶ 31–32 ("The proper balance among these and other public policy objectives lies not only in recognizing the creator's rights but in giving due weight to their limited nature. In crassly economic terms it would be as inefficient to overcompensate artists and authors for the *right of reproduction* as it would be self-defeating to undercompensate them. *Once an authorized copy of a work is sold to a member of the public, it is generally for the purchaser, not the author, to determine what happens to it.*" (emphasis added)).

165. See Abdel Latif, *The WIPO Internet Treaties*, in *TRADE GOVERNANCE IN THE DIGITAL AGE* 379 (Mira Burri & Thomas Cottier eds., 2012).

166. See David Vaver, *Opinion, User Rights*, 25 *INTELL. PROP. J.* 105 (2013).

167. See *id.* (citing *Society of Composers, Authors, and Music Publishers v. Bell Canada*, [2012] 2 S.C.R. 326 (Can.)).

168. *Id.* (internal quotation marks omitted).

*Canadian Ltd. v. Law Society of Upper Canada*, where the court commented that fair dealings and all exceptions to an author's rights were "user rights."<sup>169</sup>

Vaver's observations provide insight into how Canadian courts might treat a digital exhaustion doctrine. His suggestion that users actually have rights, as opposed to being subject to exceptions to author's rights, would likely give users a right to resell digital goods that they have legally acquired.

#### IV. SOLVING THE U.S. DIGITAL FIRST SALE PROBLEM THROUGH THE INTERNATIONAL LENS: WHY GOING DIGITAL MAKES SENSE

The United States should reform the Copyright Act to apply a functional first sale doctrine to digital goods. A functional rule would prevent confusion among end-users, consumers, and technology intermediaries as to how digital goods can be used. By moving beyond technicalities and taking into account how goods are actually used, as is done in the European Union and Canada, digital resale would take the guesswork out of using digital copyrighted works. A functional rule would also rebalance author and user rights and correct restrictions placed on copyrighted works by laws like the DMCA.

Applying lessons from the copyright regimes of the European Union and Canada has many benefits that, applied to United States copyright law, would help solve the problem the U.S. currently faces regarding the resale of digital goods. Allowing digital resale will solve U.S. copyright issues on both national and global levels. On a global level, a digital resale doctrine would set the pace for the international community and harmonize the United States with other cultural superpowers, help disseminate culture, and accommodate technological innovation. On a national level, a digital resale doctrine would align digital copyright with the Copyright Clause. More importantly, a coherent digital resale doctrine would clear the confusion consumers and technology companies currently have about how digital goods can be used from an end-user's perspective.

Using the music industry as an example, digital goods are becoming increasingly important. According to the International Federation of the Phonographic Industry's (IFPI) 2013 Digital Music Report, a combined 1.6 billion albums, singles, and tracks were sold in America in 2012, and over 391 million tracks were sold in 2012.<sup>170</sup> By adopting a digital first sale doctrine, the United States would

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169. *Id.*

170. INTERNATIONAL FEDERATION OF PHONOGRAPHIC INDUSTRY, IFPI DIGITAL MUSIC REPORT 19 (2013), available at <http://www.ifpi.org/content/library/dmr2013.pdf> [<http://perma.cc/2RV8-WH79>] (archived Jan. 13, 2015).

align with itself with the EU and potentially Canada. Logically, U.S., Canadian, or European Union copyright law covers the majority of these countries. The United States' recent adoption of a full international exhaustion doctrine, while an important advance, is essentially moot if it does not cover such a large and growing portion of the intellectual property economy.<sup>171</sup> The WIPO Internet Treaties and TRIPS seem to support such an alignment.<sup>172</sup> Allowing the resale of digital goods will provide the United States with a complete first sale doctrine that mirrors that of global powers with similar intellectual property schemes.

A digital first sale doctrine would allow content creators and global technology companies to collaborate on solutions that disseminate digital goods. By providing notice that digital exhaustion will be allowed, companies are more likely to create more tools like ReDigi, which will likely result in a second-market economy similar to the one consumers have become accustomed to in brick-and-mortar used good stores or online resale portals (such as eBay). A digital first sale doctrine could thereby boost the global intellectual property economy, as well as related sectors, and incentivize creation of works. It could also ensure that works will reach a broader range of users who would not otherwise be able to obtain them. For instance, a nonprofit organization that typically accepts book donations and distributes them abroad to schools in need of resources might now opt to purchase tablets and accept e-book donations. This would create a new e-book ecosystem consisting of donors, a tech company that facilitates the donations, and end-users who access the donated e-books. Having saved time and money by implementing the new ecosystem (enabled by a digital first sale doctrine), the nonprofit organization would be able to redirect resources to other projects.

Nationally, a digital first sale doctrine would align digital copyright with the Founding Fathers' original vision of the Constitution's Intellectual Property Clause. By excluding digital works from the first sale doctrine, the current copyright law gives authors a potentially indefinite monopoly on their works, much longer than the "limited Times" the Intellectual Property Clause approves.<sup>173</sup> Allowing authors an end-around by way of licensing erodes the essence of copyright, which is to foster both the creation *and* dissemination of works.<sup>174</sup>

171. See *supra* notes 113–22 and accompanying text (discussing the United States Supreme Court's "geographic limitation decisions").

172. See *supra* Part III.A.

173. See *supra* note 101 and accompanying text.

174. See WILLIAM PATRY, *HOW TO FIX COPYRIGHT* 75 (2011) ("The most popular things policymakers say copyright laws should do are (1) provide incentives for authors to create works they would not create in the absence of that incentive [and] (2) provide the public with access to those works . . .").

If authors have indefinite control of their works, the public is deprived of the ability to make choices with their purchased digital goods. Right now, consumers could potentially be required to purchase multiple copies of a music file to enjoy a song on multiple devices.<sup>175</sup> The money spent on multiple copies potentially cuts into budgets to buy a broader selection of music, which in turn decreases the amount of music disseminated between creators and the public.

A digital first sale doctrine would also allow the public to disseminate digital goods amongst each other. This could result in a richer culture, as the public would be able to recommend works to each other, trade them, and create conversation and interest groups around them. This is the very “progress of Science and useful Arts” the Intellectual Property Clause suggests.<sup>176</sup>

Finally, a digital first sale doctrine in the United States would cure digital confusion among the public and provide certainty regarding what can be done with digital goods. In its current state, copyright is very ambiguous regarding user rights and digital works. A digital resale doctrine would balance author’s rights with user expectations. By applying a functional analysis to digital resale, U.S. copyright can allow users to make use of digital goods as they would their analog counterparts, free of arbitrary restrictions.

## V. CONCLUSION

U.S. copyright desperately needs reform to accommodate changes in technology and the resultant market. To ensure success, solutions must both protect authors’ rights and conform to user expectations and norms. By taking principles from global copyright regimes, the United States can solve many of the issues its antiquated copyright system faces.

The digital goods market is partially self-correcting with the recent shift, through streaming services like Spotify, from ownership to access.<sup>177</sup> This is a healthy first step toward adapting to user norms and expectations. However, a legal digital first sale doctrine is necessary for a full resolution.

Moving to a strict access regime poses as much, if not more, danger to the intellectual property ecosystem as the issues presented in this Note. For instance, payment agreements between streaming

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175. See, e.g., *iTunes Store – Terms and Conditions*, *supra* note 53 (limiting the number of devices that can use a file purchased from the iTunes Store).

176. U.S. CONST. art. I, § 8, cl. 8.

177. For instance, instead of purchasing music through iTunes, many users are paying monthly subscriptions to services such as Spotify and Beats Music to access a large library of music.

music technology companies and record labels have put a strain on profits, which has in turn led to inequitable payment practices between labels and performers/songwriters.<sup>178</sup> If this continues, artists will no longer be able to afford creating music for technology and record companies to exploit.<sup>179</sup> Artists such as Taylor Swift and Rihanna have combatted these inequities by either “windowing” their releases—making them available in physical form for a period of time before releasing them in on streaming services, thus increasing initial sales figures—or removing them from streaming services altogether.<sup>180</sup> While this is well within an artist’s right to distribute, it increases the imbalance between author and user rights. Users are held hostage by artists and their record labels, being forced to purchase physical copies and running the risk of losing access to music at the record labels’ whim. A digital first sale doctrine solves these problems by providing copyright holders with some income and ensuring customers have the access they expect.<sup>181</sup>

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178. See, e.g., Stuart Dredge, *Thom Yorke Calls Spotify “The Last Desperate Part of a Dying Corpse”*, GUARDIAN (Oct. 7, 2013, 3:00 AM), <http://www.theguardian.com/technology/2013/oct/07/spotify-thom-yorke-dying-corpse> [<http://perma.cc/DX99-QNJL>] (archived Jan. 13, 2015) (describing Thom Yorke’s criticism of Spotify’s attempt to become gatekeepers for digital music consumption); Andy Gensler, *Bette Midler Disparages Pandora, Spotify Over Artist Compensation*, BILLBOARD.BIZ (Apr. 6, 2014, 8:21 AM), <http://www.billboard.com/biz/articles/news/digital-and-mobile/6039697/bette-midler-disparages-pandora-spotify-over-artist> [<http://perma.cc/H6JN-LFPS>] (archived Jan. 13, 2015) (commenting on Bette Midler’s criticism of digital streaming services and royalty payments to songwriters). According to Bette Midler, she received \$114.11 for 4,175,149 plays of songs she had written, which amounts to \$0.00002733076 per track. *Id.*

179. Content creators have started forming coalitions to address this growing issue. See, e.g., *Announcing the “Fair Trade Music” Initiative, World’s Songwriters and Composers Unite to Form a Global Advocacy Network*, SONGWRITERS GUILD (June 4, 2013, 6:09 AM), [http://www.songwritersguild.com/sandboxsga2010/fair\\_trade\\_music.html](http://www.songwritersguild.com/sandboxsga2010/fair_trade_music.html) [<http://perma.cc/N9L2-3V6R>] (archived Jan. 13, 2015) (“Its immediate goal will be the championing of a set of Fair Trade Music Principles designed to ensure transparency, fair compensation, and autonomy for music creators in an increasingly complex and non-transparent music business landscape.”).

180. See, e.g., Alex Hern & Stuart Dredge, *Taylor Swift v. Spotify: Back Catalogue Removed from Streaming Services*, GUARDIAN (Nov. 3, 2014, 11:08 AM), <http://www.theguardian.com/technology/2014/nov/03/taylor-swift-spotify-artists-discography-streaming-services> [<http://perma.cc/8XLB-S3CZ>] (archived Jan. 13, 2015) (discussing Taylor Swift’s “windowing” strategy and her decision to remove her entire catalog from streaming services); Glenn Peoples, *Exclusive: Windowing Hurts Sales, Increases Piracy, Says Paper Released by Spotify*, BILLBOARD (July 17, 2013, 11:48 AM), <http://www.billboard.com/biz/articles/news/digital-and-mobile/2032983/exclusive-windowing-hurts-sales-increases-piracy-says> [<http://perma.cc/32RA-BX9R>] (referencing Taylor Swift’s *Red* and Rihanna’s *Unapologetic* as two albums that used the windowing strategy).

181. Additionally, it potentially provides access to purchased digital files to be inherited, much like physical music collections. See Matthew C. Borden, *The Day the Music Died*, 31 ENT. SPORTS LAW., no. 2, Summer 2014, at 1 (comparing the treatment of digital music files and physical vinyl records in the context of inheritance).

On an international scale, consider three electronic music fans, one from Texas, one from Florida, and one from France. Each fan purchases a digital song from a local artist. They like their respective artists and subsequently buy physical albums that contain the purchased track along with other tracks. Accordingly, they no longer need their digital files. A digital first sale doctrine, coupled with the absence of geographic limitations, could allow a technology company to facilitate the trade of digital music files built around a global community of electronic music fans. These three fans could potentially trade music with each other and discover music they otherwise would not have known. In this case, the digital first sale doctrine would facilitate the dissemination of culture and provide the content creators with new international fans.

The United States has gradually given more weight to author rights in its attempts to align the Copyright Act with emerging technology. In focusing primarily on anti-circumvention protections and technicalities, the copyright regime in the United States has lost the balance inherent in the Constitution's Intellectual Property Clause: authors seem to have been granted much more than the "limited Time" the Founding Father's envisioned,<sup>182</sup> while the public has not been able to benefit from "progress of Science and useful Arts"<sup>183</sup> as freely due to stifled innovation. Copyright's treatment of issues such as digital first sale has confused the public to the point where it does not know how it can use copyrighted material.

Drawing on global copyright regimes to solve problems like digital copyright can help the United States rebalance its copyright policies and set standards for the rest of the international global copyright community. In establishing a balanced digital first sale doctrine, the United States can end digital confusion and provide the public with certainty in how it can consume legally purchased digital goods. Further, a more lenient digital first sale doctrine will coincide with the Intellectual Property Clause's constitutional mandate by limiting the time an author can control a copyrighted work. Reform will also accommodate technological innovation by allowing companies such as ReDigi to build tools that facilitate global dissemination of cultural goods.

Technology has changed drastically since the advent of digital goods. Instead of stifling users with confusing restrictions based on technicalities, U.S. copyright should recognize that (a) users have certain expectations and (b) technology has developed well enough to simultaneously honor users' expectations *and* authors' exclusive rights. The European Union and Canada both provide examples of copyright regimes that recognize technology's ability to reconcile user

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182. U.S. CONST. art I, § 8, cl. 8.

183. *Id.*

rights in digital goods with authors' exclusive rights. The United States would benefit from modeling a digital first sale doctrine based on the apparent principles of these regimes' exhaustion doctrines. In doing so, it has the opportunity to set precedent among the rest of the global copyright community.

Instead of being the innovation-hampering law of minutiae and technicalities that it has evolved into, U.S. copyright should welcome innovation, foster creativity, and become easier to understand. As Steve Jobs said, "Technology is nothing. What's important is that you have a faith in people, that they're basically good and smart, and if you give them the tools, they'll do wonderful things with them."<sup>184</sup> With technology such as ReDigi, we have the tools. United States legislators need to have the faith in users and technology companies to allow innovators to "do wonderful things."

*Alandis Kyle Brassel\**

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184. Jeff Goodell, *Steve Jobs in 1994: The Rolling Stone Interview*, ROLLING STONE (Jan. 17, 2011), <http://www.rollingstone.com/culture/news/steve-jobs-in-1994-the-rolling-stone-interview-20110117> [<http://perma.cc/8QKX-MDK7>] (archived Jan. 13, 2015).

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