Copyright « Exhaustion » in the USA

First Sale Doctrine

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   1.2. First Sale Doctrine

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1.1. Distribution Right

- 17 USC § 106 (3) : « (...) the owner of copyright under this title has the exclusive rights to do and to authorize any of the following: (...) 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 (...) »
1.1. Distribution Right

• « (...) copies or phonorecords of the copyrighted work (...) »
  – 17 USC § 101 :
    • « “Copies” are **material objects**, other than phonorecords, in which a work is fixed (...) »
    • « “Phonorecords” are **material objects** in which sounds, other than those accompanying a motion picture or other audiovisual work, are fixed (...) »
1.1. Distribution Right

- « (...) to distribute (...) to the public (...) »
  - Physical
  - Digital?
    - No physically changing hands (« reproduction »)
    - File-sharing cases (divided)
      - « (...) any objects in which a sound recording can be fixed is a ‘material object’. That includes the electronic files (...) »
      - « (...) while the statutes requires that distribution be of ‘material objects’, there is no reason to limit ‘distribution’ to processes in which a material object exists throughout the entire transaction — as opposed to a transaction in which a material object is created elsewhere at its finnish (...) »
1.1. Distribution Right

• « (...) to distribute (...) by sale or other transfer of ownership, or by rental, lease, or lending »
  – Wider than distribution within EU law meaning
    • First publication
    • Distribution
    • Making available to the public
      – Cf. London-Sire Records, Inc. v. Doe 1
    • Rental
    • Lending
  – > Domestic distribution
  – > Int’l ? -> Importation Right
1.2. Importation Right

- Importation: « Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106 (...) » (17 USC § 602 (a) (1))

- Importation or exportation of infringing items (17 USC § 602 (a) (2))
1.3. First Sale Doctrine

- 17 USC § 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 (...) »
1.3. First Sale Doctrine

- Limitation to the distribution right
  - Copyright owner have the sole statutory right of printing, reprinting, publishing, and vending
    - Does the right to vend secure to the copyright owner the right to control further sales (by imposing retail price)?
    - NO: « (...) The owner of the copyright in this case did sell copies of the book in quantities and at a price satisfactory to it. It has exercised the right to vend. (...) »

→ First Sale Doctrine
2.1. Rental Right Exhaustion
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- 17 USC § 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 (...) »
2.1. Rental Right Exhaustion

• Since 2007: on-demand internet streaming media
  – Agreements for streaming movies (Paramount Pictures, Lions Gate Entertainment, Metro-Goldwyn-Mayer)
  – > Digital

• Since 1997: DVD rental service
  – Online subscription
  – Monthly flat-fee service
  – DVD-by-mail service
  – Return the DVD to get new one
  – > Physical
2.1. Rental Right Exhaustion

- Voy.: [http://www.youtube.com/watch?v=4VdzueAUnQc](http://www.youtube.com/watch?v=4VdzueAUnQc)
2.1. Rental Right Exhaustion

• Areas served:
  – Streaming service: USA, some EU countries, ...
  – DVD rental service: USA, no EU countries, ...
  – > Why not?

• EU an US law compared
2.1. Rental Right Exhaustion

- EU Law
  - Rental Right
    - Art. 3, (1), directive 2006/115/EC on rental right and lending right (copies of copyright works; other subject matters protected by neighbouring rights)
    - Art. 4, (1), c, directive 2009/24/EC on computer programs
  - No exhaustion
    - Art. 1, (2), directive 2006/115/EC: « [rental right] shall not be exhausted by any sale or other act of distribution of original and copies (…) »
    - Art. 4, (2), directive 2009/24/EC: « The first sale in the Community of a copy of a program by the rightholder or with his consent shall exhaust the distribution right within the Community of that copy, with the exception of the right to control further rental of the program or a copy thereof. »
2.1. Rental Right Exhaustion

- US Law
  - Rental right falls within the scope of the distribution right
  - 17 USC § 109 (a) : « (...) the owner of a particular copy or phonorecord lawfully (...) is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord (...) »
  - > Rental right exhausted
  - Not always...
2.1. Rental Right Exhaustion

• No Netflix DVD rental service for music
  – > Why ?
• US Law
  – 17 USC § 109 (b)(1)(A) : « (...) neither the owner of a particular phonorecord nor any person in possession of a particular copy of a computer program (...), may, for the purposes of direct or indirect commercial advantage, dispose of, or authorize the disposal of, the possession of that phonorecord or computer program (...) by rental, lease, or lending, or by any other act or practice in the nature of rental, lease, or lending (...) »
  • Record Rental Amendment (1984)
  • Computer Software Rental Amendments (1990)
  • No « Save Hollywood from Netflix » Amendment...
2.2. License v. Sale
2.2. License v. Sale

• 17 USC § 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 (...) »
2.2. License v. Sale

- **Vernor v. Autodesk**, 621 F.3d 1103 (9th Cir. 2010)
  - Autodesk (software developer)
    - distributing software pursuant limited license agreement
  - Vernor (eBay resaler)
    - purchasing used software copies from customers
    - resale on eBay
  - First sale doctrine?
2.2. License v. Sale

• Owners v. licensees
    • « (...) the first sale doctrine would not provide a defense to (...) any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful »
  – License?
    • No dispositive precedent in case law
    • District Court: sale

• Vernor v. Autodesk test, considering whether the copyright owner:
  – specifies that a user is granted a license
  – significantly restricts the user’s ability to transfer the software
  – imposes notable use restrictions
2.2. License v. Sale

- Holding: license
  - > no owner
  - > first sale defense denied
  - > infringement on distribution right

- EU law
  - Art. 4, (2), directive 2001/29/EC (InfoSoc) : « 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 right holder or with his consent »
  - Art. 4, (2), directive 2009/24/EC (Software)
2.2. License v. Sale

- **UsedSoft v. Oracle International**
  - « Sale »:
    - independent and uniform interpretation throughout the EU (§ 39)
    - broad interpretation to prevent undermining effectiveness of the exhaustion rule (§ 49)
    - involves transfer of the right of ownership in the copy (§ 42)
  - Oracle licensing model:
    - downloading of a copy of the software and conclusion of a user license agreement = indivisible whole (§ 44)
    - « 45. (...) The making available by Oracle of a copy of its computer program and the conclusion of a user licence agreement for that copy are thus intended to make the copy usable by the customer, permanently, in return for payment of a fee designed to enable the copyright holder to obtain a remuneration corresponding to the economic value of the copy of the work of which it is the proprietor. »
  - = License
    - terms (« non-exclusive and non-transferable user right ») not dispositive
2.3. Digital First Sale
2.3. Digital First Sale

• 17 USC § 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 (...) »
2.3. Digital First Sale

- Secondary Market for Physical Goods
2.3. Digital First Sale

• Secondary Market for Digital Goods?
2.3. Digital First Sale

• ReDigi (2011) : online market place for pre-owned digital music
  – User’s iTunes files
  – Uploading eligible files (cloud storage)
  – Access to uploaded files (cloud streaming)
    • Personal use
    • Until resale
  – Buying/selling
    • ReDigi: fee on every transaction

– First sale doctrine ?
2.3. Digital First Sale

- Voy. : [http://www.youtube.com/watch?v=q_upZqqg89s](http://www.youtube.com/watch?v=q_upZqqg89s)

**How Redigi Works**

<table>
<thead>
<tr>
<th>The Media Manager creates a list of eligible items on your computer, ignoring any ineligible items.</th>
</tr>
</thead>
<tbody>
<tr>
<td>You can select any eligible items and submit them for Verification.</td>
</tr>
<tr>
<td>Songs that pass Verification are stored in your Cloud. Those that do not pass are left on your computer.</td>
</tr>
<tr>
<td>Once you list an item from your Cloud for sale, you will receive 1 Coupon.</td>
</tr>
<tr>
<td>Once your item is purchased, ReDigi will automatically deposit 0.12 Credit into your account.</td>
</tr>
</tbody>
</table>
2.3. Digital First Sale

  - Infringement on reproduction right
    - « (...) the fact that a file has moved from one material object – the user’s computer – to another – the ReDigi server – means that a reproduction has occurred. Similarly, when a ReDigi user downloads a new purchase from the ReDigi website to her computer, yet another reproduction is created. It is beside the point that the original phonorecord no longer exists. It matters only that a new phonorecord has been created. »
  - Fair use defense denied
    - « (...) uploading to and downloading from the Cloud Locker for storage and personal use are protected fair use (...) », but...
    - « (...) uploading to and downloading from the Cloud Locker incident to sale fall outside the ambit of fair use (...) »
  - Distribution right ?
  - First sale doctrine ?
2.3. Digital First Sale

• Infringement on distribution right
  – Court upheld London-Sire Records (electronic file transfer = distribution)
• First Sale defense denied
  – « (...) as an unlawful reproduction, a digital music file sold on ReDigi is not ‘lawfully made under this title’. Moreover, the statute protects only distribution by ‘the owner of a particular copy or phonorecord ... of that copy or phonorecord’. (...) Put another way, the first sale defense is limited to material items, like records, that the copyright owner put into stream. Here, ReDigi is not distributing such material items; rather, it is distributing reproductions of the copyrighted code embedded in new material objects (...) »
  – But: « Section 109(a) still protects a lawful owner’s sale of her ‘particular’ phonorecord, be it a computer hard disk, iPod, or other memory device onto which the file was originally downloaded »
• => No Digital First Sale Doctrine
2.3. Digital First Sale

• Int’l : No Digital First Sale Doctrine
  – Art. 8 WCT, 10 WPPT : right of making available to the public
    • // London-Sire
    • Not subject to exhaustion
  – Agreed statements : « (...) the 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** »

• USA : Digital First Sale Doctrine *de lege ferenda*?
  – Cf. DMCA Section 104 Report (2001)
    • Downloading + fixation on tangible medium = first sale
      – // Capital Records v. ReDigi
    • Downloading + no fixation on tangible medium = no first sale
2.3. Digital First Sale

- EU : Digital Exhaustion *de lege lata*?
    - Art. 3 : right of making available to the public
      - § 3 : not subject to exhaustion
    - Recital 28 : « (...) right to control distribution of the work incorporated in a **tangible article** (...) »
    - Recital 29 : no exhaustion for **services** ; only **material medium**
      - => No Digital Exhaustion
  - Directive 2009/24/EC (Software)
    - Nothing...
    - ... but CJEU, *UsedSoft v. Oracle International*
2.3. Digital First Sale

• CJEU, *UsedSoft v. Oracle International*
  – Directive 2009/24: no distinction between tangible and intangible copies (§§ 55-59)
  – Directive 2009/24: *lex specialis* (§ 56 and 60)
  – Economics: sale on tangible medium = sale by downloading from internet
  – First sale -> appropriate remuneration
    • = safeguard of the specific-subject matter
2.3. Digital First Sale

• CJEU, UsedSoft v. Oracle International
  – Dowloading + fixation on tangible medium = exhaustion
    • Cf. § 63
    • « (...) the original acquirer (...) who resells that copy must, in order to avoid infringing that rightholder’s exclusive right of reproduction of his computer program (...) make the copy downloaded onto his computer unusable at the time of its resale » (§ 70 and 78)
      – Secured by technical measures (§ 79)
  – Transfer license + dowloading = exhaustion
    • Downloading = reproduction
      – But art. 5, (1), directive 2009/24/EC : exception for reproductions « (...) necessary for the use of the computer program by the lawful acquirer in accordance with its intended purpose (...) » (cf. §§ 74-77 ; 80-81)
    • Original acquirer must make his copy unusable
      – Secured by technical measures
2.4. Int’l Exhaustion
2.4. Int’l Exhaustion

  - L’anza (hair care products manufacturer)
    - Goods lawfully manufactured in the US
    - Sales to authorized distributors in the US
    - Sales to authorized distributors outside the US
  - Quality King Distributor (drugs wholesaler)
    - Imports in the US from authorized foreign distributor
    - Resales to unauthorized retailers in the US
  - **First sale doctrine ?**
2.4. Int’l Exhaustion

- 17 USC 109(a) : « (...) lawfully made under this title (...) »
  - Undisputed
- Does first sale doctrine apply to importation right?
  - § 602 (a) (1) (importation) refers to § 106 (3) (distribution)
    - Subject to § 109(a) ? YES
  - First sale is a valid defense
- => Int’l exhaustion for goods manufactured in the US
  - Goods manufactured abroad ?
    - J. Ginsburg, concur. : « This case involves a ‘round trip’ journey, travel of the copies in question from the United States to places abroad, then back again. I join the Court’s opinion recognizing that we do not today resolve cases in which the allegedly infringing imports were manufactures abroad. »
2.4. Int’l Exhaustion
2.4. Int’l Exhaustion

• *Omega v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008)
  – Omega (watches manufacturer)
    • Watches lawfully manufactured outside the US
    • Sales to authorized distributors outside the US
  – Costco (retailer)
    • Buy watches from US company (importation in the US from gray market)
    • Resales to consumer in the US

– First sale doctrine?
2.4. Int’l Exhaustion

• 17 USC 109(a) : « (...) lawfully made under this title (...) »
  – Manufactured abroad ?
• 9th Cir. precedents (prior to Quality King)
  – Principle : first sale doctrine is no valid defense for copies manufactured abroad and first sold abroad (BMG Music)
    • Not « lawfully made under this title »
  – Exception : first sale doctrine can apply to copies not made in the US so long as authorized first sale occurs in the US (Drug Emporium)
• Omega v. Costco (after Quality King)
  – Principle affirmed
  – No need to discuss exception
• Supreme Court affirmed (4-4)
  – Per curiam, No. 08-1423 (2010)
• => No Int’l exhaustion for goods manufactured outside the US
2.4. Int’l Exhaustion
2.4. Int’l Exhaustion

  – John Wiley & Sons (textbook publisher)
    • Books lawfully manufactured outside the US
      – Notice: to be sold only outside the US
      – Equivalent US edition
    • Sales outside the US
  – Kirtsaeng (student)
    • Move to the US
    • Import books from Thai book shops
    • Resale in the US
  – **First Sale Doctrine**?
2.4. Int’l Exhaustion

- « We must decide whether the words ‘lawfully made under this title’ restrict the scope of § 109(a)’s ‘first sale’ doctrine geographically »
  - > S.Ct. : non geographical interpretation

- Reasoning
  - Literal reading
  - Historical and contemporary statutory context
  - Previous common-law doctrine
  - Constitutional goal of promoting the Progress of Science and useful Arts
  - Practical problems

- => Int’l exhaustion for goods manufactured outside the US
2.4. Int’l Exhaustion

- S.Ct. : « (...) Wiley and the dissent claim that a nongeographical interpretation will make it difficult, perhaps impossible, for publishers (and other copyright holders) to divide foreign and domestic markets. We concede that is so. A publisher may find it more difficult to charge different prices for the same book in different geographic markets. But we do not see how these facts help Wiley, for we can find no basic principle of copyright law that suggests that publishers are especially entitled to such rights. (...) Whether the copyright owners should, or should not, have more than ordinary commercial power to divide international markets is a matter for Congress to decide. »
• J. Kagan, concur. : « I recognize, however, that the combination of today’s decision and Quality King (...) constricts the scope of §602(a)(1)’s ban on unauthorized importation. (...) any problems associated with that limitation come not from our reading of §109(a) here, but from Quality King’s holding that §109(a) limits §602(a)(1). »
2.4. Int’l Exhaustion

• J. Ginsburg, dissent. : « (...) the United States has steadfastly ‘taken the position in international trade negotiations that domestic copyright owners should ... have the right to prevent unauthorized importation of copies of their work sold abroad’. The United States has ‘advanced this position in multilateral trade negotiations’, including the negotiations on the TRIPS Agreement. (...) »
2.4. Int’l Exhaustion

- EU law
  - Art. 4, (1), directive 2001/29/EC (InfoSoc) ; art. 4, (2) directive 2009/24/EC (Software) : « first sale in the Community »
  - Recital 28 directive 2001/29/EC : no exhaustion in respect to copies sold outside the Community
  - ECJ, Laserdisken v. Kulturministeriet, C-479/04 (2006) : Member States cannot provide for a rule of exhaustion other than the Community-wide exhaustion rule (§ 24)