A "LICENSE TO READ": THE EFFECT OF E-BOOKS ON PUBLISHERS, LIBRARIES, AND THE FIRST SALE DOCTRINE

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ABSTRACT

E-books are rapidly displacing sales of books and transforming the way the American public understands and accesses information. Yet as e-books grow in popularity, the threat of piracy grows alongside them. Thousands of people search for pirated books online every day, and more are likely to follow, as e-books become the norm rather than the exception. To displace this threat, publishers convinced Congress to abandon the first sale doctrine in favor of a market theory that allowed publishers to license, rather than sell, their copyrighted works.

Yet a decade later, Congress's decision has not only failed to ensure publishers' continued role as gatekeepers of literary content, but also stripped libraries of their ability to operate effectively in the digital age. As Congress sits back and watches, and the Supreme Court turns its back, libraries—the antithesis of a market entity—are at the mercy of market forces they can neither compete with nor control. Congressional action is needed to preserve the application of the first sale doctrine to publisher-library transactions and to guarantee the preservation of unfettered public access in the digital age.

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INTRODUCTION

"*[L]ibraries are the great tools of scholarship, the great repositories of culture, and the great symbols of the freedom of the mind.*"

—Franklin Delano Roosevelt[1]

MR. WALKER: *According to this bill as you understand it, would it be competent for an author to print under his copyright notice a reservation prohibiting people from doing anything with that book except reading it themselves? . . .*

MR. STEUART: *Yes, sir . . . . [U]nder the absolute right of the author, he could make any reservation he pleased. In other words, this so-called sale would be nothing but a license to read.*

—Statement of Arthur Steuart Before the House Committee on Patents, 1906[2]

While publishers and libraries both exist to provide access to information, they operate from two irreconcilable perspectives.[3] Publishers exist to make money from the access they provide; libraries exist to provide that access for free.[4] Naturally, publishers are less than thrilled that libraries lend their books for free on a regular basis.[5] Yet, despite their irreconcilable differences, publishers and libraries have managed to exist throughout history in a state of uneasy compromise.[6] The compromise was due in large part to copyright law's first sale doctrine, which ensured that once a copyright owner sold his or her work a library had the legal right to lend that book to its patrons.[7] Unfortunately, the advent of e-books has destabilized this tenuous relationship.[8]

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1 William R. Gordon, Am. Library Ass'n, Advocacy for Democracy: The Role of Library Associations, Remarks at the 66th IFLA Council and General Conference (Aug. 2000) (quoting Franklin D. Roosevelt), http://archive.ifla.org/IV/ifla66/papers/119-122e.htm.

2 *Copyright Hearings: Hearing on S. 6330 and H.R. 21592 Before the H. and S. Comm. on Patents*, 59th Cong. 77, 164 (1906) [hereinafter *Copyright Hearings*] (statement of Arthur Steuart) (debating whether proposed language for the vending right in the Copyright Act of 1909 would destroy the secondhand book business).

3 *See* Laura N. Gasaway, *Values Conflict in the Digital Environment: Librarians Versus Copyright Holders*, 24 COLUM.-VLA J.L. & ARTS 115, 115–16 (2000).

4 *Id.*

5 *Id.*

6 *See* discussion *infra* Part I.C.

7 *See* Gasaway, *supra* note 3, at 121.

8 *See* discussion *infra* Part II.D.

E-books are rapidly turning printed books into an antiquated commodity and are gaining popularity with consumers.[9] "By making the printed page electronically available, e-books channel low-tech manuscripts into the modern, connected world."[10] E-books offer readers several advantages. An e-reader is "about the size of a slim paperback, yet [] can store over one thousand e-books in memory."[11] Content is downloaded and accessed immediately via a wireless connection, and readers can comment alongside text, bookmark passages, and have their e-books read aloud.[12] E-reader owners purchase about 2.7 times more books than they did prior to owning the device.[13] While these numbers may seem promising for publishers, in reality the surge in e-book popularity has left them shuddering in fear.[14]

In "a high-tech world of high-speed, interconnected networks," pirating an e-book is as simple as the click of a mouse and practically impossible for publishers to control; one can illegally download and distribute an entire library of 2,500 e-books in a matter of hours.[15] To counteract this threat of piracy and preserve their "foothold as traditional arbiters of content," publishers "feel the need to assert more control" through license agreements that restrict the use of their content.[16] License agreements are industry standards that have permanently altered and shaped the nature of commerce in the digital era.[17] Unfortunately, licensing agreements have also undermined the application of the first sale doctrine and raise profound implications for libraries.[18] Without the traditional benefits and security afforded by the first sale doctrine, libraries are at a distinct disadvantage when it comes to providing access to digital information.[19]

Part I of this Article begins by exploring the creation of the first sale doctrine and the policy objectives it was intended to fulfill. Part I then discusses

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9 Michael Seringhaus, *E-Book Transactions: Amazon "Kindles" the Copy Ownership Debate*, 12 YALE J.L. & TECH. 147, 151–52 (2009).

10 *Id.* at 152.

11 *Id.* at 153.

12 *Id.*

13 *Id.*

14 David Carnoy, *Kindle E-Book Piracy Accelerates*, CNET REVIEWS, Feb. 18, 2011, http://reviews.cnet.com/8301-18438_7-20033437-82.html.

15 Kristen M. Cichocki, *Unlocking the Future of Public Libraries: Digital Licensing that Preserves Access*, 16 U. BALT. INTELL. PROP. L.J. 29, 38 (2008).

16 *Id.*

17 *See id.* at 39 ("[D]igital formats and licensing negotiations have altered the terms of how information is exchanged and made available.").

18 *See* discussion *infra* Part II.D.

19 *See* Cichocki, *supra* note 15, at 41.

the role of the first sale doctrine in library lending before digital media and the inherent limitations that moderated the effect of library lending on publishers' profits. Part II considers the role of the first sale doctrine after the popularization of digital media and the doctrine's subsequent erosion through digital licensing. Part II argues that digital licensing models, if continued, will have disastrous consequences for libraries. Finally, this Article argues that to ensure the future of libraries and unfettered public access to information, Congress must act to preserve the application of the first sale doctrine to publisher-library transactions of digital content. Such action would restore the balance enjoyed in the tangible realms of the past while reaffirming the public policies underlying both libraries and the Copyright Act.

I. THE GOOD OLD DAYS

Before the rise of the digital age, the first sale doctrine was considered necessary to preserve the doctrinal balance underlying all of copyright law: the proprietary interest of copyright owners versus public access to knowledge.[20] Part A of this section traces the events that led to the creation and codification of the first sale doctrine. Part B then explores how the first sale doctrine has preserved "public access by facilitating the existence of . . . public libraries" over the course of the last century.[21] Finally, Part C explores the limitations inherent in tangible library lending and how the limitations allowed publishers and libraries to peacefully coexist under the first sale doctrine.

A. The Creation and Codification of the First Sale Doctrine

When Congress enacted the first United States Copyright Act in 1790, it granted copyright owners "the sole right and liberty of printing, reprinting, publishing and vending [their works] . . . for the term of fourteen years."[22] The framers understood the vending right as giving copyright owners nothing more than the right to control the manner in which their works were first put on the market.[23] Yet the scope of the right became the subject of controversy after a group of publishers "put out a little notice on one of the inside leaves of their books" stating the book was copyrighted and could "not be resold at retail" for

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20 R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C. L. REV. 577, 577 (2003).

21 *Id.*

22 Copyright Act of 1790, ch. 15, 1 Stat. 124, (repealed 1831) (emphasis added).

23 *See Copyright Hearings*, *supra* note 2.

less than the stated price.[24] When one retailer refused to sell the books at the designated price, the publishers sued. The publishers claimed the retailer's failure to comply with their price restrictions violated their exclusive vending rights granted under copyright law.[25]

Thus, the issue in *Bobbs-Merrill Co. v. Straus*[26] was whether "the sole right to vend . . . [did in fact grant] the owner of [a] copyright the right, after a sale of the book to a purchaser, to restrict future sales of the book at retail."[27] After noting that the publishers offered no proof "of contract limitation, nor license agreement controlling the subsequent sales of the book," the Court held that the right to vend was limited to a work's initial sale.[28] Copyright law did not allow an author to control the retail sales of his work to purchasers with whom he had no privity of contract.[29] "[A]bsent an appropriate contractual provision, there could be no restriction on resales."[30]

The Court's holding in *Bobbs-Merrill* sparked intense debate within the Copyright Subcommittee on whether copyright law should allow authors to limit the ways in which consumers later resold or transferred their works.[31] Representative Robert Parkinson took the floor in favor of the first sale doctrine and the holding in *Bobbs-Merrill*. In a dramatic speech, Parkinson warned the Subcommittee that a failure to preserve the first sale doctrine would place a "weapon" in the hands of publishers:

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24 *Common-Law Rights as Applied to Copyright: Hearing on H.R. 21592 Before the H. Subcomm. on Copyright of the H. Comm. on Patents*, 60th Cong. 32 (1909) [hereinafter *Common-Law Rights as Applied to Copyright*] (statement of Rep. Robert H. Parkinson, H. Comm. on Patents).

25 *Id.*

26 210 U.S. 339 (1908).

27 *Id.* at 350. While *Bobbs-Merrill* marked the first explicit statement of the first sale doctrine, some courts had previously suggested such limitations might exist within the vending right. *See, e.g.*, Henry Bill Publishing Co. v. Smythe, 27 F. 914, 925 (S.D. Ohio 1886) ("The owner of the copyright may not be able to transfer the entire property in one of his copies, and retain for himself an incidental power to authorize a sale of that copy . . . .").

28 *Bobbs-Merrill*, 210 U.S. at 350–51.

29 Henry Sprott Long III, *Reconsidering the "Balance" of the "Digital First Sale" Debate: Re-Examining the Case for a Statutory Digital First Sale Doctrine to Facilitate Second-Hand Digital Media Markets*, 59 ALA. L. REV. 1183, 1186 (2008).

30 *Id.*

31 *See, e.g.*, *Common-Law Rights as Applied to Copyright*, *supra* note 24, at 16 (statement of Rep. William A. Jenner, H. Comm. on Patents) (discussing how it had long been the "ambition" of New York book dealers to control "the prices at which they [could] [re]sell each other's books at retail").

> Effectuate this, [and] . . . [i]t means that [publishers] can fix any condition—it may be a condition of price; it may be a condition of who shall sell at all; it may be a condition that nobody shall sell unless he comes in and subscribes to a code that may determine a man's business and affect his continuance in business, and compel him to surrender his business entirely to their control.[32]

Congress, persuaded by Parkinson's argument, codified the first sale doctrine in § 27 of the Copyright Act of 1909.[33] By enacting § 27, Congress intended to "balance a copyright-owner's right to control distribution of his work with the public's interest in alienating copies of the work."[34] While publishers viewed the result in *Bobbs-Merrill* with fear and disbelief,[35] libraries viewed the first sale doctrine as a long-awaited[36] confirmation that copyright owners could not "stay the free flow of the world's thought" to satiate their private greed.[37]

In 1976, Congress dropped the right to sell and vend from the Copyright Act and instead gave copyright owners the right to "distribute copies . . . to the public by sale or other transfer of ownership, or by rental, lease, or lending."[38]

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32 *Id.* at 35 (statement of Rep. Robert H. Parkinson, H. Comm. on Patents).

33 Long, *supra* note 29, at 1186. The Copyright Act of 1909 states:

> The copyright is distinct from property in the material object copyrighted, and the sale or conveyance, by gift or otherwise, of the material object shall not itself constitute a transfer of the copyright, nor shall the assignment of the copyright constitute a transfer of the title to the material object; but nothing in this title shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained.

Victor F. Calaba, *Quibbles 'N Bits: Making a Digital First Sale Feasible*, 9 MICH. TELECOMM. & TECH. L. REV. 1, 5 (2002) (citing 17 U.S.C. § 27 (1977)).

34 Calaba, *supra* note 33.

35 *Publishers Aghast at Copyright Ruling*, N.Y. TIMES, June 3, 1909, http://query.nytimes.com/mem/archivefree/pdf?res=9D04E3D7143EE233A25750C0A9609C946997D6CF (noting publishers were in agreement "that if [*Bobbs-Merrill*] turns out to be as sweeping as now appears to be the case, it will be a terrible blow to the books sellers of the country and to the publishers and the public").

36 Notably, libraries at the dawn of the twentieth century did not realize the profound implications that *Bobbs-Merrill* would have just a century later because "there was no serious question that libraries were permitted to lend to patrons copies of printed books that they acquired." Gregory K. Laughlin, *Digitization and Democracy: The Conflict Between the Amazon Kindle License Agreement and the Role of Libraries in a Free Society*, 40 U. BALT. L. REV. 3, 23 (2010). They merely saw the decision as an assurance that the prices in the secondary markets they depended upon would continue without interference. M. L. Raney, *Copyright and the Publishers: A Review of Thirty Years*, 16 BULL. AM. LIBR. ASSOC. 110, 115 (1922).

37 Raney, *supra* note 36.

38 Long, *supra* note 29, at 1187.

Though a copyright owner had the statutory right to disseminate his work by rental, lease, or lending, the right was limited by the first sale doctrine, which Congress codified in § 109(a) of the Copyright Act of 1976.[39] Section 109(a) states that distribution rights will "cease[] with respect to a particular copy or phonorecord once [the copyright owner] has parted with ownership of it."[40] In describing the parameters of § 109, the House Report made specific reference to libraries:

A library that has acquired ownership of a copy is entitled to lend it under any conditions it chooses to impose. This does not mean that conditions on future disposition of copies or phonorecords, imposed by a contract between their buyer and seller, would be unenforceable between the parties as a breach of contract, but it does mean that they could not be enforced by an action for infringement of copyright.[41]

While a copyright owner could place restrictions upon the resale of his works through traditional contract law, copyright only granted authors control over the work's initial publication.[42]

Section 109(a)'s first sale exemption established a statutory two-prong test, (1) ownership, and (2) legality of the copy.[43] If either prong is not satisfied, a defendant is held liable for copyright infringement.[44] The first prong requires that a defendant have full ownership of the copy of the work in question to invoke the first sale defense.[45] Mere possession is insufficient to trigger the first sale exemption.[46] The second prong requires the defendant to prove the copy in question was lawfully made.[47] Illegal copies of copyrighted works do not re-

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39 MARYBETH PETERS, U.S. COPYRIGHT OFFICE, GENERAL GUIDE TO THE COPYRIGHT ACT OF 1976, at 7:1–2 (1977). That section states: "[n]otwithstanding the provisions of § 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord." Long, *supra* note 29, at 1187.

40 Long, *supra* note 29, at 1187–88.

41 H.R. REP. NO. 94-1476, at 79 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5693.

42 Calaba, *supra* note 33.

43 *Id.*

44 *Id.*

45 *Id.* Such ownership is established by "sale, gift, bequest, or other transfer of title" to the copyrighted work. *Id*.

46 *Id.*

47 *Id.* at 6.

ceive the benefit of the first sale doctrine, even if the defendant obtained the illegal copy through lawful means.[48]

The rationale behind the two-prong test in § 109(a) rests in the belief that once a "copyright holder [consents] to public distribution of his work [he] has realized the full value of that work."[49] Thus in 1976, as in 1909, Congress chose a public policy that avoided restraints on free trade rather than one that would create a monopoly in a copyrighted work.[50] Congress recognized that used markets[51] play a critical role in bringing copyrighted works to audiences.[52] Congress noted that libraries in particular "spread the cost of acquiring . . . a large number and variety of works over a large population,"[53] and ensure that copyrighted works "remain accessible to the public even if the copyright holder ceases production or distribution of the work."[54]

B. Library Lending Under the First Sale Doctrine

Libraries are considered vital to a democracy because they offer the public access to resources so that the public can develop "the information litera-

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48 Calaba, *supra* note 33.

49 Long, *supra* note 29, at 1188.

50 *Id.* This is not to say that the first sale doctrine is without limits. A consumer who purchases a copyrighted work does not receive the exclusive rights of the copyright holder. Matthew Friedman, Comment, *Nine Years and Still Waiting: While Congress Continues to Hold Off on Amending Copyright Law for the Digital Age, Commercial Industry Has Largely Moved On*, 17 VILL. SPORTS & ENT. L.J. 637, 646 (2010). Unless the use falls under another copyright doctrine, fair use, the owner of the copy cannot use it to produce derivative works without the copyright holder's consent, or make copies of the work and distribute those copies to others. *Id.* Further, § 109(b) provides an exception to the first sale doctrine for those copyright owners who wish to "prevent the unauthorized commercial rental of computer programs and sound recordings" through rentals, leases, or lending. *Id.* In doing so, Congress intended to offer copyright owners the opportunity to protect their reproduction right by "disallowing subsequent purchasers to 'rent' copies that can easily be copied because of their digital form." *Id.* at 647. Eric Matthew Hinkes, *Access Controls in the Digital Era and the Fair Use/First Sale Doctrines*, 23 SANTA CLARA COMPUTER & HIGH TECH. L.J. 685, 689 (2007).

51 "Used markets" refers primarily to libraries, but also includes secondhand bookstores and acquisitions through gift or donation.

52 Long, *supra* note 29, at 1192.

53 *Id. See also* Molly Shaffer Van Houweling, *Author Autonomy and Atomism in Copyright Law*, 96 V.A. L. REV. 549, 603 (2010) (insisting that "some rights are always unified with possession of the tangible object that embodies a copyrighted work").

54 Hinkes, *supra* note 50, at 689.

cy skills necessary to become responsible, informed citizens."[55] Since libraries operate as intermediaries between copyright owners and the American public, libraries' ability to fulfill their social function is necessarily shaped by the ability of copyright law to balance the competing interests of these two groups.[56] Historically, the first sale doctrine was the key for achieving that balance.[57] Since its inception at the beginning of the twentieth century, the doctrine has shaped modern library practices in three fundamental ways.

First, and most important, the first sale doctrine gave libraries ownership of the copyrighted works they lent; ownership is the legal justification for all library-lending practices.[58] Without ownership, library lending would violate the distribution right of copyright owners, and libraries would commit copyright infringement every time they lent a book.[59] Libraries would be forced to seek permission to lend books, and the loans would be subject to any restrictions the copyright owner might impose.[60] The first sale doctrine, however, allows librar-

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55 Gordon, *supra* note 1 (quoting Nancy Kranich, then President of the American Library Association).

56 Carol C. Henderson, *Libraries as Creatures of Copyright: Why Librarians Care About Intellectual Property Law and Policy*, ALA, http://www.ala.org/ala/issuesadvocacy/copyright/copyrightarticle/librariescreatures.cfm#balance (last visited Mar. 6, 2011) (adapted from a presentation by Ms. Henderson, Executive Director of the Washington Office of the American Library Association, given July 9,1998 before the Computer Science and Telecommunications Board, National Research Council).

57 *See* UNITED STATES COPYRIGHT OFFICE, INQUIRY REGARDING SECTIONS 109 AND 117: COMMENTS OF THE LIBRARY ASSOCIATIONS, Docket No. 000522150-0150-01, at 3 (2000) [hereinafter *Comments of the Library Associations*], http://www.copyright.gov/reports/studies/dmca/comments/Init018.pdf (discussing how the first sale doctrine balances the "public benefit derived from the alienability of creative works" with the "increased incentive to create that would stem from granting authors perpetual control over copies of a work").

58 *See* Joshua H. Foley, Comment, *Enter the Library: Creating a Digital Lending Right*, 16 CONN. J. INT'L L. 369, 384 (2001) ("[W]ith the demise of ownership, the first sale doctrine becomes meaningless for digital works. The repercussions of this for public libraries could be profound. With no actual 'sale'—only a per use lease—there can be no subsequent usage, such as lending.").

59 *See* Reese, *supra* note 20, at 590 (noting the first sale doctrine "allows libraries to lend the copies they own without the need to obtain a distribution license from the copyright owner").

60 *See Comments of the Library Associations*, *supra* note 57, at 6 ("Digital publishers now have the ability to manage the kind of day-to-day operational decisions that were previously within the discretion of libraries. Previously, as owner of a particular copy of a book, a library was entitled to set the terms of patron access to that copy; as licensee of a digital work subject to technological measures, the library may be denied such right.").

ies to freely lend books to the public without any restrictions.[61] The freedom to lend gives libraries the managerial discretion to uniformly alter their lending practices in response to changes in the law and the needs of their patrons.[62]

Second, the first sale doctrine ensures that libraries are economically feasible.[63] Libraries historically made sense because they spread the cost of access to knowledge.[64] A book was purchased once, and then, under the first sale doctrine, loaned to hundreds of people over and over again.[65] While an individual consumer might get one or two uses from every book he or she purchased, a library gets hundreds of uses, yet, it pays the same price.[66] Furthermore, since libraries are semi-permanent institutions, the first sale doctrine allowed them to build their collections over time and "coast" on previous purchases when they faced economic hardship.[67] While budget cuts might prevent libraries from purchasing new books, the size of a library's current collection stays the same.[68] Even when libraries lack the funds to add to their collections, the first sale doctrine ensured they could still access materials through programs such as interlibrary loan ("ILL").[69]

Third, the first sale doctrine ensured the existence of secondary markets; patrons could donate, lend, lease, or resell copyrighted works they had lawfully purchased to libraries.[70] If a library could not pay the retail price for a copyrighted work, it could always purchase a used copy from a secondhand bookseller or put out a request for donations.[71] Further, the secondary markets made it extremely difficult for publishers to engage in price discrimination

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61 *See id.* ("When works are owned outright and are subject to the first sale doctrine, a library is able to exercise managerial discretion over the lending and use of its materials.").

62 *See id.* at 8 (highlighting problems that arise when libraries are unable to set uniform lending practices, and noting such problems lead to diminished access).

63 Tim Spalding, *E-Book Economics: Are Libraries Screwed?*, THING-OLOGY BLOG, (Oct. 7, 2009, 2:09 AM), http://www.librarything.com/blogs/thingology/2009/10/ebook-economics-are-libraries-screwed/.

64 *Id.*

65 *Id.*

66 *Id.*

67 *Id.*

68 *Id.*

69 *See* Gasaway, *supra* note 3, at 146–47 (discussing the importance of ILL to libraries and noting that, as prices rise, libraries are increasingly relying on ILLs to provide access to materials for their patrons).

70 Spalding, *supra* note 63.

71 *Id.*

against libraries.[72] The existence of secondary markets has made it impossible for publishers to charge libraries higher prices and capitalize on the added value libraries received from each purchase.[73] If publishers tried to charge libraries higher prices, libraries would simply purchase used copies directly from the secondary markets.[74] Thus, the first sale doctrine ensures that libraries operate free from price constraints by preserving secondary markets and preventing price discrimination.[75]

C. Publishers and Libraries Under the First Sale Doctrine: An Uneasy Compromise

The values of publishers and libraries naturally conflict; "[l]ibrarians tend to view information as a necessary public good . . . that should be made available at a reasonable cost . . . [while publishers] view their works as private property that can be commercialized."[76] The dichotomy of values creates a tension that underlies the operation of the first sale doctrine and library lending.[77] Historically, however, the physical constraints surrounding the operation of the first sale doctrine eased the tension[78] and limited the effect of library lending on publishers' bottom lines.[79]

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72 *Id.*

73 *Comments of the Library Associations*, *supra* note 57, at 10–11 (noting that since the advent of digital licensing publishers have implemented a "price and market discrimination business model").

74 Spalding, *supra* note 63. "[A] price and market discrimination business model . . . forces libraries to choose between second-class, but affordable products and more expensive digital versions." *Id.*

75 Ann Bartow, *Libraries in a Digital and Aggressively Copyrighted World: Retaining Patron Access through Changing Technologies*, 62 OHIO ST. L.J. 821, 829 (2001).

76 Gasaway, *supra* note 3, at 115–16.

77 *See id*. at 121 (noting that library practices "may conflict with publishers' goals").

78 *National Information Infrastructure Copyright Protection Act: Hearing on H.R. 2441 and S. 1284 Before the Subcomm. on Courts and Intellectual Property of the H. Comm. on the Judiciary*, 104th Cong. (1996) [hereinafter *National Information Infrastructure Copyright Protection Act*] (statement of Marybeth Peters, Register of Copyrights), *available at* http://www.copyright.gov/docs/niistat.html.

79 *See* Gasaway, *supra* note 3, at 115 (noting librarians and publishers share many core values); Eric Hellman, *E-Books in Libraries a Thorny Problem, Says Macmillan CEO*, GO TO HELLMAN BLOG, (Mar. 10, 2010, 9:05 PM), http://go-to-hellman.blogspot.com/2010/03/ebooks-in-libraries-thorny-problem-says.html ("the existing business relationship between publishers and libraries won't work for ebooks the way it has worked for print books").

The physical limitations worked to limit the scope of library practices in four ways. First, the physical nature of library lending ensured access was limited.[80] While a single book was lent multiple times, only one patron at a time could read it.[81] Often, the inconvenience caused by waiting gave readers an incentive to purchase the book themselves.[82] Second, libraries were geographically tied to the communities they served.[83] To check out a library book, patrons had to drive to the library, locate the book, wait in line, and then return the book to the library before the book's due date.[84] Thus, borrowing a book from a library was a cumbersome process that few patrons were consistently willing to endure just to access a free book.[85] Third, the risk of pirating library books was limited by the hassles associated with copying.[86] Even after the development of the photocopier, copying an entire book demanded a significant amount of time that few were willing to spend.[87] Finally, the pain caused by library lending was mitigated because libraries provided publishers a cost-effective way to spread, publicize, and preserve their books for posterity.[88] Though publishers and authors would rather see their books purchased than borrowed, they understood

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80 Hellman, *supra* note 79 ("In the past, getting a book from libraries has had a tremendous amount of friction.") (quoting Macmillan CEO John Sargent).

81 *Id*.

82 Martin Taylor, *Libraries and eBooks: Tough Issues That It's Time to Debate*, EREPORT: DIGITAL PUBLISHING DOWNUNDER BLOG (July 6, 2010), http://activitypress.com/blog/2010/07/06/libraries-and-ebooks-tough-issues-that-its-time-to-debate/ (last visited Oct. 18, 2011) (noting publishers might lose sales if library lending is more efficient and "frictionless").

83 Hellman, *supra* note 79 (citing going to the library as an example of the "friction" historically associated with library lending) (quoting Macmillan CEO John Sargent).

84 *Id*.

85 *See* Reese, *supra* note 20, at 588 n.42 ("[A] library patron faces nonmonetary costs in borrowing the copy [from a library], such as waiting for the library to acquire a copy, waiting for the library's copy to be available if it has been borrowed by another patron, being able to retain the copy only for a limited time, and possessing the copy subject to a recall by the library.").

86 Mark Gimbel, Note, *Some Thoughts on the Implications of Trusted Systems for Intellectual Property Law*, 50 STAN. L. REV. 1671, 1673 (1998).

87 *Id*. While photocopying still takes time, its development sparked serious concern for copyright owners and was eventually addressed by legislation. Friedman, *supra* note 50, at 637 n.4.

88 *See* OVERDRIVE, THOUGHT LEADERSHIP WHITE PAPER: *How eBook Catalogs at Public Libraries Drive Publishers' Book Sales and Profits* 4–6 (2010), http://http://www.overdrive.com/files/PubWhitePaper.pdf (highlighting libraries as important sources of marketing power through word of mouth recommendations).

that the word-of-mouth recommendations facilitated by library lending brought market benefits that could boost their sales.[89]

Thus, for the majority of the last century, libraries and publishers have enjoyed a tenuous but reconcilable relationship under the first sale doctrine because the relationship was physically constrained. While the first sale doctrine ensured libraries could provide free and economical access to copyrighted works, publishers rested easy knowing the library's lending appeal was limited by the transaction costs associated with it.[90] Unfortunately, the opportunities presented by digital technology and the Internet threaten to destroy the tangible foundation of the uneasy compromise.[91]

II. CHALLENGES POSED BY E-BOOKS TO PUBLISHERS, LIBRARIES, AND THE FIRST SALE DOCTRINE

Though publishers and libraries could coexist in the tangible world under the first sale doctrine, the rise of the Internet and digital technology raised new problems that lacked easy solutions and threatened to disrupt the delicate balance achieved in the last century.[92] Part A of this section discusses Congress's decision to adopt a "wait and see" approach regarding the role of the first sale doctrine in the digital era. Part B then examines the threats e-books pose to traditional publishing houses, and how these threats lead publishers to license, rather than sell, their e-books. Part C discusses the current judicial support for licensing. Finally, Part D explores the disastrous implications of current e-book licensing models on library lending.

A. The DMCA: Copyright Versus Market Theory

The Digital Millennium Copyright Act ("DMCA") was passed in response to growing concerns about the rise of digital media in the 1990s.[93] The Internet age suddenly made the "quick, easy, and far-reaching dissemination of large quantities of copyrighted works" possible at the click of a mouse.[94] While

89 Id.

90 *See* Hellman, *supra* note 79 (noting publishers' views of library lending have been unsettled by e-books).

91 Friedman, *supra* note 50, at 638.

92 Calaba, *supra* note 33, at 7 ("While modern technology presents innumerable benefits . . . it poses considerable challenges to traditional copyright law.").

93 *Id*. at 18.

94 Friedman, *supra* note 50, at 638.

everyone agreed digital technologies offered exciting opportunities, the new technology also raised serious problems.[95] The ability to rapidly spread information through the Internet made the piracy of copyrighted works almost effortless.[96] To address the piracy concerns, Congress passed the DMCA, which allowed copyright owners to impose digital restrictions[97] on copies of their work and made the removal of the restrictions a criminal offense.[98] While the DMCA arguably allowed copyright owners to secure their works from piracy, the DMCA significantly limited the application of the first sale doctrine in the digital age.[99] Thus, when Congress ordered a joint committee to examine the effects of the DMCA on the first sale doctrine, heated debates surrounded whether Congress should expand the doctrine to include "the digital transmission of [lawfully purchased] works."[100]

Libraries strongly advocated for a digital first sale doctrine.[101] They argued that the doctrine is preserved in the digital age if the transmitted work "was subsequently deleted from the sender's computer," because deletion was "the digital equivalent of giving, lending, or selling a book."[102] The doctrine was necessary, they argued, to preserve the "ownership" that had traditionally

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95 *Id*. *See also Digital Millennium Copyright Act (DMCA) Section 104 Report: Hearing Before the H. Subcomm. on Courts, the Internet, and Intellectual Property of the Comm. on the Judiciary*, 107th Cong. 12 (2001) [hereinafter *Digital Millennium Copyright Act (DMCA) Section 104 Report*] (statement of Marybeth Peters, Register of Copyrights), *available at* http://www.copyright.gov/docs/regstat121201.html ("Digital communications technology enables authors and publishers to develop new business models, with a more flexible array of products that can be tailored and priced to meet the needs of different consumers.").

96 Friedman, *supra* note 50, at 638.

97 These technical copy-restrictions are generally known as digital rights management (DRM) software. Seringhaus, *supra* note 9, at 166.

98 UNITED STATES COPYRIGHT OFFICE, *The Digital Millennium Copyright Act of 1998, U.S. Copyright Office Summary*, 2 (Dec. 1998), *available at* http://www.copyright.gov/legislation/dmca.pdf. *See also* Seringhaus, *supra* note 9, at 166 ("The Act renders it illegal to bypass any technological measure that controls access to a protected work, or to distribute technology designed for this purpose. Thus, the DMCA prohibits cracking the copy protection on a software program, bypassing DRM on a digital music file, or reformatting Kindle e-book files to function in a platform-independent manner. Perpetrators face a variety of civil and criminal remedies.") (footnotes omitted).

99 *See* Friedman, *supra* note 50, at 647 (noting arguments that the greatest limitation on the first sale doctrine in the digital age is the anti-circumvention provision of the DMCA).

100 UNITED STATES COPYRIGHT OFFICE, DMCA SECTION 104 REPORT 44 (Aug. 2001), *available at* http://www.copyright.gov/reports/studies/dmca/dmca_study.html.

101 *See id*. at xxi (addressing the concerns of the library community).

102 Digital Millennium Copyright Act (DMCA) Section 104 Report, *supra* note 95.

allowed libraries to lend books without violating the public distribution right.[103] Libraries predicted that, without a first sale doctrine in the digital age, copyright owners would enjoy unlimited control of their copyrighted works, even after a sale occurred.[104]

Further, libraries noted that even with a digital first sale doctrine copyright, owners could avoid the doctrine's application by writing it out of the license agreements to their digital works.[105] Thus far, copyright owners of academic journals have shown little willingness to "sell" digital copies to libraries.[106] Instead, owners increasingly relied on licensing agreements to distribute their works.[107] Without a first sale doctrine that could preempt these contractual agreements, libraries feared that all copyright owners would implement a "pay-per-use" system where unrestricted ownership and access were nonexistent.[108]

In contrast, copyright owners argued for limited application of the first sale doctrine in the digital era.[109] In their view, the only reason the first sale doctrine worked in the past was because it was constrained by physical limitations.[110] "The absence of such limitations," they argued, "would have an adverse effect on the market for digital works"[111] and "require [copyright owners] to subsidize the reading public."[112] Instead, publishers advanced a new market theory, which argued replacement of the first sale doctrine in digital commerce by more efficient, private commercial transactions.[113] In the digital age, where copyright protection is thin or unavailable, allowing copyright owners to disseminate their works through contract is "the decisive factor in ensuring that a work is produced and placed on the market."[114] While copyright law imposes inefficient transaction costs that both prevent access and raise prices, a "usage rights" regime not only ensures the production of copyrighted works, but also

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103 *See Comments of the Library Associations*, *supra* note 57, at 23.

104 *Id*. at 4.

105 *Id*. at 10.

106 *See* Gasaway, *supra* note 3, at 148 (discussing library license agreements with academic journals).

107 *Id*.

108 Foley, *supra* note 58, at 383–84.

109 *Digital Millennium Copyright Act (DMCA) Section 104 Report*, *supra* note 95.

110 *Id.*

111 *Id.*

112 Julie E. Cohen, *Lochner in Cyberspace: The New Economic Orthodoxy of "Rights Management,"* 97 MICH. L. REV. 462, 473 (1998).

113 *Id*. at 475.

114 *Id*. at 476.

increases access and reduces costs through price discrimination.[115] As the market ensures balanced access to copyrighted works, any legislative efforts to preserve the first sale doctrine are unnecessary.[116]

Backed by market theory, copyright owners claimed congressional action was premature and that, given time, the markets would resolve the first sale problem.[117] As a result, the Joint Committee rejected the libraries' arguments, pointing to the undeveloped nature of e-commerce as the basis of their rejection:

> [While] [t]he library community has raised concerns about how the current marketing of works in digital form affects libraries . . . [m]ost of these issues arise . . . from existing business models and are therefore subject to market forces. We are in the early stages of electronic commerce. We hope and expect that *the marketplace* will respond to the various concerns of customers in the library community.[118]

Rather than proactively addressing the "issues" facing libraries, Congress chose to adopt the Joint Committee's "wait and see" approach and let the "market" dictate the future of the first sale doctrine.[119] Unfortunately, the economic model that drove Congress to stay its hand at preserving the first sale doctrine has failed to ensure the survival of either publishers or libraries in the digital era.

B. Publishers and the Dangers of E-Books

At the time of the DMCA, the movement towards digital works was fairly limited in scope; e-books were in their infancy, and many remained un-

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115 *Id*. at 475.

116 *Id.* at 478. This argument presumes that libraries operate within the limits of market forces. However, libraries by definition operate outside of market forces because they offer a public good *for free*. Gasaway, *supra* note 3, at 134. They do not make money off of the materials they lend. *Id.* They are driven solely by the desire to provide access to the most people at the least cost. *Id*. The fact that libraries have been insulated from price discrimination has been a primary reason why public libraries have been so successful in disseminating copyrighted works. *See supra* Part I.B.

117 *See* U.S. COPYRIGHT OFFICE, *supra* note 100, at xi (questioning the consumer demand for a change in the law).

118 *Id*. at xxi (emphasis added).

119 *Id.* at xi. Libraries received only vague reassurances that they "serve[d] a vital function in society," and that Congress would "continue to work with the library and publishing communities on ways to ensure the continuation of library functions that are critical to our national interest." *Id*.

convinced that an electronic file could ever displace a physical book.[120] Still, publishers knew that e-books were on the horizon.[121] If the transformation to digital was handled badly, widespread consumer piracy and industry bankruptcy could become a reality in just a few years.[122] If the transformation was handled well, however, e-books could save the industry from shrinking profit margins and reinvigorate consumer interest in books.[123]

Just a decade later, every major publishing company has adopted e-books as "a swift and economical way to bring [books] . . . to the average reader."[124] At least ten different types of serious e-readers were on the market in 2010,[125] and consumers now purchase more e-books than printed copies through online retailers such as Amazon.com.[126] Still, the question of whether e-books will save or destroy the publishing industry is far from resolved.[127] Publishers must still bypass several obstacles before they can secure their fates in the digital era.

The first and biggest obstacle publishers face with e-books is the same concern they argued before Congress a decade ago: piracy.[128] The piracy of

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120 *See* Melanie Austria Farmer, *Report: Music Pirates Will Evade Countermeasures*, CNET (Sept. 19, 2000), http://news.cnet.com/2100-1023-245901.html (discussing anticipated rise of digital books). The Register of Copyrights had previously noted that warnings of "an entirely encrypted world seem[ed] unrealistic" because "traditional [physical] sources such as retail stores . . . and libraries [would] continue to co-exist with digital databases." *National Information Infrastructure Copyright Protection Act*, *supra* note 78.

121 *See Microsoft Predictions for eBooks in 2010*, BIBLIOFUTURE BLOG (Dec. 11, 2010, 12:26 PM), http://bibliofuture.blogspot.com/2010/12/microsoft-predictions-for-ebooks-in.html (predicting that e-book titles would outsell conventional volumes by 2008 and discussing ways publishers would "survive").

122 *See* Farmer, *supra* note 120 (citing reports that the book industry could expect to lose $1.5 billion by 2005 due to online piracy of e-books)

123 *See* Ken Auletta, *Publish or Perish: Can the iPad Topple the Kindle, and Save the Book Business?*, THE NEW YORKER, Jan. 26, 2010, http://www.newyorker.com/reporting/2010/04/26/100426fa_fact_auletta (discussing hopes that e-books would revamp interest in reading).

124 Hannibal Travis, *Building Universal Digital Libraries: An Agenda for Copyright Reform*, 33 PEPP. L. REV. 761, 774 (2006).

125 *E-Book Reader Review*, TOP TEN REVIEWS, http://ebook-reader-review.toptenreviews.com/.

126 Claire Cain Miller & Julie Bosman, *E-Books Outsell Print Books at Amazon*, N.Y. TIMES, May 19, 2011, http://www.nytimes.com/2011/05/20/technology/20amazon.html.

127 *See* Auletta, *supra* note 123, at 24 (noting publishers called the iPad the "Jesus tablet" in the hopes that it would save the industry from Amazon).

128 Motoko Rich, *Print Books are Targets of Pirates on the Web*, N.Y. TIMES, May 12, 2009, http://www.nytimes.com/2009/05/12/technology/internet/12digital.html; Matt Frisch, *Digital*

digital music almost destroyed the music industry,[129] and early studies suggest that the same dangerous trend is looming on the horizon for e-books.[130] Online e-book piracy represents roughly ten percent, or three billion dollars, of all books sales,[131] and 1.5 to 3 million people search for pirated e-books every single day.[132] While it was difficult for pirates to spend the time and energy making multiple copies of tangible books, a would-be consumer can now locate and download a pirated e-book in less than five minutes.[133]

The second obstacle that publishers face is the elusive "sweet spot" of e-book pricing (the highest price that consumers will pay to read an e-book without pirating it).[134] Consumers simply do not understand[135] why they should pay the same price for an e-book as they would for a tangible copy.[136] Admittedly, the publishing industry does save on printing and shipping costs, which general-

Piracy Hits the E-book Industry, CNN TECH (Jan. 1, 2010), http://articles.cnn.com/2010-01-01/tech/ebook.piracy_1_e-books-digital-piracy-publishing-industry?_s=PM:TECH.

129 *See* Rich, *supra* note 128 ("For now, electronic piracy of books does not seem as widespread as what hit the music world, when file-sharing services like Napster threatened to take down the whole industry.").

130 When Dan Brown's much-anticipated novel *The Lost Symbol* was released in September 2009, it sold more digital copies than hardback copies. Frisch, *supra* note 128. While publishers greeted the high numbers with enthusiasm and hope, their exuberance was short-lived. "Less than 24 hours after its release, pirated digital copies of the novel were found on file-sharing sites . . . [w]ithin days, it had been downloaded for free more than 100,000 times." *Id.* The piracy trend is not just affecting novels; publishers of academic textbooks from grade school to graduate levels have reported finding illegal, digital copies of the works all over the Internet. *Id.*

131 *Executive Summary: US Book Anti-Piracy Research Findings*, ATTRIBUTOR, 1 (Jan. 14, 2010), http://web.archive.org/web/20110116060410/http://www.attributor.com/docs/ Attributor_Book_Anti-Piracy_Research_Findings.pdf.

132 Adrian Hon, *Your Time is Up Publishers. Book Piracy is About to Arrive on a Massive Scale*, THE TELEGRAPH (Oct. 13, 2010), http://blogs.telegraph.co.uk/technology/adrianhon/100005867/your-time-is-up-publishers-book-piracy-is-about-to-arrive-on-a-massive-scale/.

133 *Id.*

134 Motoko Rich & Brad Stone, *E-Book Price Increase May Stir Readers Passions*, N.Y. TIMES, Feb. 11, 2010, http://www.nytimes.com/2010/02/11/technology/11reader.html (discussing publishers' attempts to test different e-book pricing models).

135 *See id.* ("'I just don't want to be extorted,' said Joshua Levitsky, a computer technician and Kindle owner in New York. 'I want to pay what it's worth. If it costs them nothing to print the paper book, which I can't believe, then they should be the same price. But I just don't see how it can be the same price.'").

136 *See* Reese, *supra* note 20, at 644–45 (discussing how limitations on the ability to resell licensed, digital works has impacted their affordability).

ly run about "12.5% of the average hardcover retail list price,"[137] but that still leaves over eighty-five percent of industry costs unaccounted for.[138] The average price of a hardcover book is twenty-six dollars.[139] To obtain the profits necessary to sustain the current publishing paradigm, an e-book would have to be sold for twenty-two dollars.[140] Currently, however, the average price of an e-book ranges from twelve to fifteen dollars, almost half the sustainable price.[141] Despite the fact that these prices reflect just half of the cost of a normal print

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137 Motoko Rich, *Steal This Book (for $9.99)*, N.Y. TIMES, May 17, 2009, http://www.nytimes.com/2009/05/17/weekinreview/17rich.html.

138 *Id.* The majority of these costs are spent on developing the content that is published—on editing, marketing, and writing the book itself. *Id.* In the words of one publisher: "[w]e develop it; we design it; and we deliver it however our readers want it." Harold McGraw III & Philip Ruppel, *Don't Write Off Publishers: 5 Myths About an Industry That is Adapting—Not Printing its Epitaph*, USA TODAY, Oct. 6, 2010, http://www.usatoday.com/printedition/news/20101006/column06_st.art.htm.

139 Rich, *supra* note 137.

140 $22 is roughly 85% of $26, which is the estimated percentage of costs retained with e-books. *Id.*

141 Rich & Stone, *supra* note 134. In an effort to capture an early edge in the e-book market, Amazon bought e-books from publishers for about thirteen dollars and sold them for $9.99, taking a loss on each book in order to gain market share and encourage sales of its electronic reading device, the Kindle. *Id.* at 136. At the end of 2009, Amazon "accounted for an estimated eighty per cent of all electronic-book sales, and $9.99 seemed to be established as the price of an e-book. Auletta, *supra* note 123, at 24. While e-book sales were booming, publishers were unable to realize any profits on the books because consumers were becoming accustomed to the $9.99 price. *Id.* In early 2010, the publisher Macmillan decided to take the lead in forcing Amazon to let it dictate the price at which its e-books would be sold. *Id.* Under Macmillan's model, many books would still be sold at or under the $9.99 price, but publishers would be setting the prices and the retail giant's self-imposed discounts would disappear. Motoko Rich & Brad Stone, *Publisher Wins Fight With Amazon Over E-Books*, N.Y. TIMES (Jan. 31, 2010), http://www.nytimes.com/2010/02/01/technology/ companies/01amazonweb.html. When Macmillan successfully eradicated the $9.99 pricing model, publishers and authors were "taken aback" by the outrage consumers displayed at the price change: "The sense of entitlement of the American consumer is absolutely astonishing," [stated one author]. "It's the Wal-Mart mentality, which in my view is very unhealthy for our country. It's this notion of not wanting to pay the real price of something." Amazon commenter's attacked [the author] after his publisher delayed the e-book version of his novel by four months to protect hardcover sales. [While the author] was not sure whether the protests were denting his sales . . . he said, "It gives me pause when I get 50 e-mails saying 'I'm never buying one of your books ever again. I'm moving on, you greedy, greedy author.'" Rich & Stone, *supra* note 134. Evidently, the publishers' revolt against Amazon's $9.99 pricing model came just in time.

copy, many consumers, outraged by what they consider to be the "greed" of publishers and authors, turn to piracy.[142]

Increasing competition for author royalties further complicates this pricing dilemma.[143] In the Internet age, the historical publishing structure is no longer necessary to disseminate books to the reading pubic.[144] As a result, almost anyone can publish an e-book.[145] This increase in competition has given authors newfound leverage when it comes to negotiating publishing agreements. Unfortunately, most major publishers do not have the flexibility to increase royalty rates and sustain both print and digital production costs.[146] While competitors such as Amazon offer authors seventy percent royalties on every e-book sold, major publishing houses are currently offering as little as twenty percent.[147] With e-books growing in popularity, these diminished royalty rates are a major concern for authors[148]; naturally, few can afford to see their incomes cut in half.[149] Already, many authors are choosing to leave publishers behind, and the numbers suggest that more are soon to follow suit.[150]

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142 *See* Rich & Stone, *supra* note 134 ("[I]f consumers balk at price increases, piracy could grow rapidly.").

143 Auletta, *supra* note 123, at 25, 29.

144 *See id.* at 25 (discussing arguments that the current structure of the publishing industry takes too much money from authors and is inefficient).

145 *Id.* at 30.

146 Rich Mokoto, *Math of Publishing Meets the E-Book*, N.Y. TIMES (Feb. 28, 2010), http://www.nytimes.com/2010/03/01/business/media/01ebooks.html (discussing the difficulty of publishers to maintain profits in both the print and digital realms, even with lower e-book royalties).

147 Richard Curtis, *And the New Macmillan E-Book Royalty Is . . .* , E-READS (Feb. 4, 2011), http://ereads.com/2010/02/and-new-macmillan-e-book-royalty-is.html; Schiel & Denver Publishing Limited, *Book Publishers' Agency Model is Not Working For Mid-List and Backlist Authors, says Authorlink.com*, BOOK PUBLISHER BLOG (Oct. 1, 2010), http://www.bookpublisherblog.com/2010/10/book-publishers%E2%80%99-agency-model-is-not-working-for-mid-list-and-backlist-authors-says-authorlink-com/ [hereinafter Book Publishers' Agency Model is Not Working].

148 *Book Publishers' Agency Model is Not Working*, *supra* note 147.

149 *Id.*

150 *See, e.g.*, Alison Flood, *US Authors Blame Publishers for Wylie Amazon eBook Deal*, THE GUARDIAN.CO.UK, July 17, 2010, http://www.guardian.co.uk/books/2010/jul/27/authors-guild-amazon-andrew-wylie (discussing literary agent Andrew Wylie's decision to bypass traditional publishing houses when publishing e-books of authors such as Philip Roth and John Updike, and the Authors Guild's response that publishers had brought it on themselves).

To adapt to these increasing threats, market theory suggests publishers should license, rather than sell, their works.[151] Unfortunately, these restrictive license agreements create yet another obstacle for publishers: disgruntled consumers.[152] While the traditional, tangible book is bought and sold, e-books are licensed, and often the restrictive terms of these licenses make it impossible for readers to enjoy the traditional benefits they have come to expect from the first sale doctrine:

> [M]any of the rights that purchasers of goods have come to expect—for instance, the right to use the goods for their intended purpose, or to resell them—do not automatically apply to purchases of most software or digital content. Instead, the copyright holder must specifically grant such rights. *If such rights are withheld or withdrawn, the buyer may find that he has in fact bought nothing at all*.[153]

While several retailers have reshaped their licensing models to imitate the lending privileges of the first sale doctrine,[154] the ability to lend a particular e-book is still subject to publisher approval and significantly limited by digital rights management (DRM) software.[155] The consumer frustration incited by these restrictions has actually incited piracy, rather than deterred it, and many pirates see little reason to license a legitimate e-book and its accompanying restrictions when they can download and own a pirated copy DRM and license-free.[156]

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151 Cohen, *supra* note 112, at 477 (discussing the belief of market theorists that "pure private ownership would be a more efficient method of managing our culture's creative resources").

152 C. Max Magee, *Confessions of a Book Pirate*, THE MILLIONS, (Jan. 25, 2010 6:32 AM), http://www.themillions.com/2010/01/confessions-of-a-book-pirate.html (interviewing one book pirate who claims that "if every book was available in electronic format with no DRM for reasonable prices ($10 max for new/bestseller/omnibus, scaling downwards for popularity and value) it just wouldn't be worth the time, effort, and risk to find, download, convert and load the book when the same thing could be accomplished with a single click on your Kindle"); Chris Meadows, *E-Book Piracy Keeping Pace With E-Book Popularity*, TELEREAD BLOG, (May 12, 2009, 8:15 AM), http://www.teleread.com/chris-meadows/e-book-piracy-keeping-pace-with-e-book-popularity/.

153 Seringhaus, *supra* note 9, at 164 (emphasis added). Instead, purchasers are merely receiving a license to read. *Id*. at 164–65.

154 Jennifer Booton, *Amazon Rolls Out Book Lending for Kindle*, FOX BUSINESS (Dec. 30, 2010), http://www.foxbusiness.com/markets/2010/12/30/amazon-rolls-book-lending-kindle/#ixzz1Aa4guUkP (last visited Feb. 17, 2011).

155 *See id.* (noting that only books "approved by the publisher or rights holder" can be lent).

156 *See* Magee, *supra* note 152 (interviewing one book pirate who claims he will "not buy DRM'd ebooks that are priced at more than a few dollars, but would pay up to $10 for a clean file if it was a new release").

Thus, a decade after publishers abandoned the first sale doctrine for market theory, e-books and their accompanying license agreements have led to a rising tide of digital piracy, increasing pressure to lower prices, and a disgruntled and frustrated array of consumers. Still, for publishers, the uncertainty of e-books and the instincts of self-preservation lead to the conclusion that more control, not less, is called for.[157] Facing the economic uncertainty of e-books, publishers are clinging to licensing and will not be selling their digital content to anyone anytime soon.

C. Judicial Ambivalence and Market Theory

While digital license agreements may seem necessary to publishers who fear the ease and dangers of digital piracy, the widespread use of these agreements carry profound implications for how commercial copyright transactions transpire.[158] As these licenses become the norm rather than the exception:

> [T]he model for online publishing is shifting from a property-based system of transactions governed by copyright law to a contract-based system of transactions governed by whatever terms the market will bear, even if such terms do not further the pro-dissemination values inherent in the Copyright Clause and in copyright law.[159]

As these license agreements "increasingly blur[] the crucial distinction in copyright law between rights in the intangible intellectual property and possession of the actual chattel property,"[160] courts are adding to the confusion by ratifying, rather than clarifying, the diminished role of the first sale doctrine in the twenty-first century.[161]

Historically, "no bright-line rule distinguish[ed] mere licenses from sales."[162] It was often left to courts to decide whether questionable agreements should be construed as sales or licenses, based upon the intent of the parties and the language of the contract.[163] Courts could thus circumvent contractual

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157 Cichoki, *supra* note 15.

158 *See* Seringhaus, *supra* note 9, at 164.

159 Kathleen K. Olson, *Preserving the Copyright Balance: Statutory and Constitutional Preemption of Contract-Based Claims*, 11 COMM. L. & POL'Y 83, 87–88 (2006).

160 Keith Harris, Note, *For Promotional Use Only: Is the Resale of a Promotional CD Protected by the First Sale Doctrine?*, 30 CARDOZO L. REV. 1745, 1756 (2009).

161 *Id.*

162 Vernor v. Autodesk, Inc., 555 F. Supp. 2d 1164, 1169 (W.D. Wash. 2008), *vacated*, 621 F.3d 1102 (9th Cir. 2010).

163 *Id.*

agreements that attempted to bypass the first sale doctrine to further the pro-dissemination values inherent in copyright law.[164] In the digital age, however, "market theory" suggests that there is "no public interest justification for [judicial] intervention through rules such as [the first sale doctrine] unless the market cannot be relied upon to serve that public interest."[165] Under a market-centric approach, judges should seek to avoid impeding market forces except in extreme circumstances.[166] With a rising tide of digital licenses dominating commercial transactions, it is increasingly easy for judges to shrug aside the policies championed by the first sale doctrine in favor of copyright owners who are struggling to stay afloat.

A recent federal case, *Vernor v. Autodesk, Inc.*,[167] highlights the growing power of the license and its eroding effect on the first sale doctrine. Vernor, attempting to resell software through e-Bay, sued Autodesk, a software publisher, in a declaratory action to establish that he did not infringe.[168] By all appearances, Vernor was an "owner" of the copies of the software; the copies were authentic copies, and he had lawfully acquired them from former Autodesk customers.[169] However, if those Autodesk customers were not owners but licensees, he could not have gained legal title to the software and thus would not be an "owner" with the right to resell that software on e-Bay.[170] Thus, the prime issue in the case was whether the transaction between Autodesk and its customers should be construed as a license or a sale.[171]

The District Court noted that the Ninth Circuit precedents on point, *United States v. Wise*[172] and the more recent *MAI Sys. Corp. v. Peak Computer, Inc.*,[173] were irreconcilable in their treatment of copyright licenses.[174] The *Wise* court used a holistic approach to determine whether a contract was a license or a

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164 *See, e.g., Bobbs-Merrill*, 210 U.S. 339 (1908); Henry Bill Publishing Co. v. Smythe, 27 F. 914 (S.D. Ohio 1886).

165 Olson, *supra* note 159, at 88.

166 *Id.* at 89.

167 621 F.3d 1102 (9th Cir. 2010).

168 *Id.* at 1103.

169 *Id.* at 1105.

170 *Id.* at 1107.

171 *Id.*

172 550 F.2d 1180, 1183 (9th Cir. 1977).

173 991 F.2d 511, 513 (9th Cir. 1993).

174 *Vernor*, 621 F.3d at 1111.

sale, looking to the economic realities of the transaction.[175] Such an approach, designated the "Economic Realities" approach,[176] allows the court to look past the language of the contract and consider a variety of factors, including whether "the possessor of the copy has a right to perpetual possession,"[177] to determine the true nature of the transaction at issue. The counter approach established by *MAI Systems* is often referred to as the 'Magic Words' approach.[178] Under this approach, the court shows extreme deference to the copyright owner's construction of the agreement; if it can be construed on its face as a license, rather than a sale, the court will construe it as such.[179] As *Wise* was the earlier of the two precedents, the District Court elected to apply *Wise* and determined that the original transaction was not a license, but a sale, thus upholding the application of the first sale doctrine.[180]

The Ninth Circuit reversed the district court's ruling and attempted to reconcile the two precedents by establishing a new test.[181] After examining *MAI Systems* and *Wise*, the court found they established three factors for determining

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175 Brief for Electronic Frontier Foundation, et al. as Amici Curiae Supporting Plaintiff-Appellee at 10, Vernor v. Autodesk, Inc., 621 F.3d 1102, 9th Cir. (2010) (No. C-07-1189-RAJ), *available at* http://www.librarycopyrightalliance.org/bm~doc/lca_vernor12oct10.pdf (observing the *Wise* court stated that "in each case, the court must analyze the arrangement at issue and decide whether it should be considered a first sale" or a license) [hereinafter Brief for EFF]. The court's economic realities approach in *Wise* utilized a series of factors to determine whether a first sale or license occurred: "whether the agreement (a) was labeled a license, (b) provided that the copyright owner retained title to the prints, (c) required the return or destruction of the prints, (d) forbade duplication of prints, or (e) required the transferee to maintain possession of the prints for the agreement's duration." *Vernor*, 621 F.3d at 1108.

176 *See* Brief for EFF, *supra* note 175, at 18 (noting that the Second Circuit in Krause v. Titleserv, 402 F.3d 119 (2d Cir. 2005) "made its determination based upon the economic realities of the transaction").

177 *Id.* at 13.

178 *Id.* at 21–22; *See* Brian W. Carver, *Why License Agreements Do Not Control Copy Ownership: First Sales and Essential Copies*, 25 BERKELEY TECH. L.J. 1887, 1899 (2010).

179 Carver, *supra* note 178, at 1899 (noting that for certain courts it is as if merely saying the magic words 'we license not sell' puts an end to the inquiry and dubbing such an approach "the 'Magic Words' approach."). The 1993 MAI case contained a single footnote, which stated, without reference or citation, that "[s]ince MAI licensed its software, the Peak customers do not qualify as ''owners' of the software . . . ." MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 519 n.5 (9th Cir. 1993).

180 *Vernor*, 555 F. Supp. 2d at 1172 ("Where opinions of three-judge Ninth Circuit panels conflict, the court must rely on the earliest opinion.").

181 Vernor v. Autodesk, 621 F.3d 1102, 1110–11 (9th Cir. 2010) (describing a new three-part test that reconciles *MAI Sys. Corp*. and *Wise*).

"whether a software user [was] a licensee, rather than an owner of a copy."[182] The factors included, "whether the copyright owner specifies that a user is granted a license"; "whether the copyright owner significantly restricts the user's ability to transfer the software"; and "whether the copyright owner imposes notable use restrictions."[183] Finding all three factors satisfied, the Ninth Circuit held that Vernor did not "own" the software he had purchased.[184] Thus, Vernor was not entitled to resell the software under the first sale doctrine, and his efforts to do so constituted copyright infringement.[185]

The Ninth Circuit justified its holding by noting that those copyright owners who had filed amicus briefs with the court[186] had "presented policy arguments that favor[ed] [the court's] result."[187] Specifically, the court noted that its holding:

> (1) allow[ed] for tiered pricing for different software markets, such as reduced pricing for students or educational institutions; (2) increase[ed] software companies' sales; (3) lower[ed] prices for all consumers by spreading costs among a large number of purchasers; and (4) reduc[ed] the incidence of piracy by allowing copyright owners to bring infringement actions against unauthorized resellers.[188]

In contrast, the court dismissed the concerns of the American Library Association. While it agreed that "the software industry's licensing practices could be adopted by other copyright owners, including book publishers," it noted that Congress could "modify the first sale doctrine" if it felt these "policy considerations" required a different approach.[189]

The Ninth Circuit's reasoning and deference to the market concerns of copyright owners mirrored the rationale of the market theory currently underly-

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182 *Id.*

183 *Id.* at 1111.

184 *Id.* at 1111–12.

185 *See id.* at 1113 (noting its holding, "that a software customer bound by a restrictive license agreement may be a licensee of a copy not entitled to the first sale doctrine or the essential step defense.").

186 *See id.* at 1114 ("[T]he Software & Information Industry Association ('SIIA'), and the Motion Picture Association of America ('MPAA') have presented policy arguments that favor our result."). While these copyright owners did not specifically include the American Association of Publishers, their arguments and policy interests are equivalent.

187 Vernor v. Autodesk, 621 F.3d 1102, 1114 (9th Cir. 2010).

188 *Id.* at 1114–15.

189 *Id.* at 1115.

ing and justifying digital licensing.[190] The court explicitly chose to establish a rule that sidestepped harm to any commercial copyright markets, regardless of how slight, rather than uphold the underlying policy goals of the first sale doctrine.[191] Even more troubling is that, under the Ninth Circuit's new test, whether a transaction is a sale or a license depends solely on the actions of the copyright owner.[192] As long as a copyright owner portrays the transaction as a license and attempts to impose restrictions on the work's transfer and use, the court will construe the agreement as a license regardless of the economic realities of the transaction.[193] Thus, the Ninth Circuit's decision tilts the license-sale dichotomy heavily in publishers' favor. Just by following three simple steps, publishers can rest assured that, at least in the Ninth Circuit, no one who buys their e-book will legally be able to lend, resell, or gift it without their authorization.[194]

Further, the court's decision concedes that publishers can bypass the first sale doctrine by placing licenses not just on digital e-books, but on their printed counterparts as well. Autodesk's software was not digitally distributed; it was packaged and sold in physical copies, with its license agreement attached to the software box.[195] Under the court's reasoning, there appears to be no reason why publishers could not impose a similar license on the inside cover of every book they sell.[196] Such a practice, adopted en masse, would render the

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190 *Compare id.* at 1114–15 (noting the economic policies that favored its holding), *with* Cohen, *supra* note 112, at 474–77 (discussing the economic arguments in favor of private ordering of copyrights under market theory).

191 *See id.* at 1114–15 (recognizing the "serious [policy] contentions" presented by each party yet holding in favor of Autodesk). The court claimed it was required reached this conclusion based on its interpretation of *MAI Systems* and *Wise*. *Id.* at 1115. Considering that the District Court reached a different conclusion more favorable to the policies underlying the first sale doctrine after applying *Wise*, the older of these precedents, the Ninth Circuit's claim that precedent mandated its holding is unpersuasive. *Vernor*, 555 F. Supp. 2d at 1174.

192 *See Vernor*, 621 F.3d at 1111 (describing a new three-part test where each factors turns on "whether the copyright owner" does or does not take a certain action).

193 See *id.* at 1111, 1114 (after applying its new three-factor test, the court found the transaction was a license because Autodesk "specifie[d] that a user is granted a license . . . significantly restrict[ed] the user's ability to transfer the software . . . and impose[d] notable use restrictions" and that factors relating to "the economic realities of the transaction" were not "dispositive.").

194 *See id.* at 1111 (establishing three factors for determining whether a transaction is a sale or a license that depends solely on actions taken by the copyright owner).

195 Vernor v. Autodesk, Inc., 555 F. Supp. 2d 1164, 1165 n.1 (W.D. Wash. 2008).

196 Greg Beck, *Ninth Circuit Says Consumers May Not Own Their Software*, PUBLIC CITIZEN (Sept. 10, 2010, 4:13 PM), http://pubcit.typepad.com/clpblog/2010/09/ninth-circuit-says-consumers-may-not-own-their-software.html (noting that, "unfortunately, there is no obvious

first sale doctrine irrelevant.[197] Secondary markets would disappear and traditional privileges such as selling, lending, or gifting would be under the complete control of publishers.[198]

While *Vernor* was limited to the Ninth Circuit and subject to appeal, a recent Supreme Court case, *Costco Wholesale Corp. v. Omega*,[199] further restricts the application of the first sale doctrine.[200] Omega claimed Costco, a large wholesale retailer, infringed its copyrights by importing Omega watches from other countries and then reselling them in the United States.[201] While Costco claimed it could resell the watches under the first sale doctrine, Omega argued the doctrine's application was limited in scope to copies that were manufactured in the United States.[202] The Ninth Circuit agreed with Omega and held that the first sale doctrine did not apply.[203] After hearing oral arguments and receiving multiple amicus briefs, the Supreme Court issued a sparse one sentence, per curiam decision affirming the judgment "by an equally divided Court."[204]

Vernor and *Costco* hold profound implications for the continued viability of traditional library practices. Libraries' only solace from restrictive and costly license agreements rests in the printed copies they have legitimately purchased under the first sale doctrine.[205] Yet the Supreme Court's decision removed millions of library books from the scope of the first sale doctrine over-

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reason why other publishing industries couldn't begin imposing the same terms," and that "[i]f they do, it may be the end of ownership of books and music").

197 *Id.*

198 *See Digital Books and Your Rights: A Checklist for Readers*, ELECTRONIC FRONTIER FOUNDATION, https://www.eff.org/wp/digital-books-and-your-rights (Feb. 16, 2010) (noting "licensed content . . . block[s] readers' ability to resell, lend, or gift an e-book" and warning readers that unless they fight to preserve the benefits of ownership provided by the first sale doctrine they will face a "world where all [they] can ever do is rent' a book, subject to the whims of a digital 'landlord.'")

199 541 F.3d 982, 990 (9th Cir. 2008), *aff'd by an equally divided court*, 131 S. Ct. 565 (2010).

200 Anjali Bhat, *Protecting the First Sale Doctrine: PK Files Amicus Brief in* Costco v. Omega, PUBLIC KNOWLEDGE BLOG (July 9, 2010, 2:32 PM), http://www.publicknowledge.org/blog/protecting-first-sale-doctrine-pk-files-amicu.

201 *Costco*, 541 F.3d at 983.

202 *Id*. at 984–85.

203 *Id*. at 987–88.

204 *Costco*, 131 S. Ct. at 565. Justice Kagan recused herself from the decision, as she had previously written a brief as Solicitor General at the invitation of the Court. Tom Goldstein, *An Update on Recusal*, SCOTUS BLOG (Oct. 3, 2010, 9:36 PM), http://www.scotusblog.com/2010/10/an-update-on-recusal/.

205 *See supra* Part I.B.

night.[206] "Over 200 million books in U.S. libraries have foreign publishers,"[207] and American publishers often employ independent, offshore companies to print their books.[208] Thus, under the reasoning of *Costco*, libraries can no longer lend any of these books without facing the risk that they will be sued for copyright liability.[209]

At the very least, the courts have left libraries drowning in a wellspring of legal uncertainty and confusion as their traditional lending freedoms are slowly whittled down to negotiated, contractual rights. Publishers, fearing industry failure and digital piracy, are turning to strictly negotiated license agreements to protect their commercial interests, and the courts are accepting these agreements with little concern for how they will impact libraries or the general public's ability to access knowledge.[210] Just a century ago, the thought that publishers would attach licenses to tangible books was considered an unthinkable "act of tyranny."[211] Yet today such acts are generally accepted, and the pro-dissemination policy underlying the first sale doctrine has been all but abandoned in favor of the market interests of copyright owners.[212] As the digital trend continues and e-books grow in popularity, libraries are finding it increasingly difficult to provide access and disseminate knowledge without the protection of the first sale doctrine, and no one is paying any attention to their cries for help.[213]

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206 Reply Brief for the Petitioner at 4, Costco Wholesale Corp. v. Omega, 131 S. Ct. 565 (2010) (No. 08-1423).

207 *Id.*

208 *Id.* at 13.

209 *Id.* at 4.

210 *See supra* Part II.C.

211 *See Common-Law Rights as Applied to Copyright*, *supra* note 24, at 35 (statement of Rep. William A. Jenner, H. Comm. on Patents).

212 *See* Olson, *supra* note 159, at 89 (noting some scholars believe "the shift from copyright to contracts online" and "judicial validation of contracts . . . in favor of producers at the expense of users" has created an "imbalance that has shifted too heavily toward the economic interests of copyright holders at the expense of pro-dissemination values."). Over a decade ago, before the advent of e-readers and e-books en masse, scholars were worrying. Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 Calif. L. Rev. 111, 125 n.39 (1999) ("[I]n setting copyright policy, Congress today seems inclined to think only of the interests of publishers, and even then, only of current and not future publishers. . . . [T]he property rights priesthood is firmly in control of the lawmaking process.").

213 *See* Cichoki, *supra* note 15, at 31–32 ("[L]ibraries and library patrons are losing their ability to use information in traditional ways and to take advantage of the efficiencies to provide information and to access information that digital technologies promise and enable.").

D. Libraries, Publishers, and E-Books

While publishers have spent the last decade exploring how to reach an e-book price that will deter piracy without bankrupting their industry, libraries have been struggling to discover a sustainable way to lend e-books to their patrons.[214] A library's primary goal is to "preserve in perpetuity access to information,"[215] and e-books make it easy for libraries to meet that goal.[216] Digital files erase storage and maintenance concerns and avoid normal wear and tear.[217] An e-book, once purchased, can theoretically last forever.[218] E-books also avoid the transaction costs that previously dissuaded patrons from visiting the library.[219] They eliminate the need to drive to the library to check out a book, the hassle of carrying the books home, and late fees if books are not returned on time.[220] Further, e-books are actually drawing new and younger patrons through libraries' doors.[221] Libraries want to offer books that their patrons want to read, and e-books are increasingly what library patrons want.[222]

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214 *Id.*

215 *Id.* at 39.

216 Travis, *supra* note 124, at 762–63.

217 *See generally* ABBY SMITH, COUNCIL ON LIBRARY AND INFORMATION RESOURCES, WHY DIGITIZE? (1999), *available at* http://www.clir.org/pubs/reports/pub80-smith/pub80.html (noting digital files can be "compressed for storage" and protect originals from "wear and tear").

218 Travis, *supra* note 124, at 762.

219 *See* Hellman, *supra* note 79 (paraphrasing John Sargent's discussion of the "tremendous amount of friction" historically associated with library lending, such as traveling to the library, the limited number of copies available for lending, and the wear and tear inflicted on those copies that lead to reorders); Benedict Page & Helen Pidd, *E-Book Restrictions Leave Libraries Facing Virtual Lockout*, THE GUARDIAN, Oct. 26, 2010, http://www.guardian.co.uk/books/2010/oct/26/libraries-ebook-restrictions (discussing how e-books give libraries the opportunity to "reel in new readers and retain old ones" through remote lending, the elimination of late fees, and accessibility for patrons too "busy or infirm" to visit the library in person).

220 *See* Page & Pidd, *supra* note 219 (noting that e-books avoid late fees and allow patrons who otherwise may not be able to visit the library the ability to browse and checkout books).

221 Motoko Rich, *Libraries and Readers Wade into Digital Lending*, N.Y. TIMES, Oct. 14, 2009, http://www.nytimes.com/2009/10/15/books/15libraries.html (discussing how college students are visiting the library several times a month because of e-books).

222 *Id.*

Unfortunately, publishers are not enthusiastic about libraries lending e-books.[223] While libraries are thrilled by thoughts of unlimited, universal access, publishers are anything but overjoyed that the physical and temporal restrictions of library lending can be easily eliminated in the digital age.[224] If an e-book can be downloaded by multiple library patrons at a single time, without ever stepping foot in a library,[225] why would anyone ever purchase an e-book again?[226] As publishers increasingly cling to license agreements as their industry goes digital, they have little incentive to make it easy for libraries to lend e-books to their patrons.[227]

Of course, under the first sale doctrine, libraries were fairly insulated from publishers' fears; they could lend books whenever and however they wished, and there was little publishers could do to stop it.[228] Under the new licensing regime, however, libraries are stripped from actually owning content.[229] As a result, "contractual obligations rather than [the first sale doctrine determine] how libraries may lend, copy, archive, and preserve content."[230] Libraries must pay fees for access to works at rates determined by the publishing companies, and their ability to lend these works is completely subject to publisher restrictions.[231]

This licensing model raises several issues for libraries. First, licensing eliminates a library's ability to effectively manage its budget in response to changing economic climates.[232] The first sale doctrine allowed libraries to work economically because they could acquire books over time.[233] Then, when they had the money to do so, they could purchase books and build their collection.[234] When times were tough, libraries might not be able to purchase new books, but

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223 Martin Taylor, *Should Libraries Have ebooks? I'm Not Sure They Should*, eREPORT: DIGITAL PUBLISHING DOWNUNDER (April 22, 2009), http://activitypress.com/2009/04/22/should-libraries-have-ebooks-im-not-sure-they-should/.

224 *Id.*

225 *Id.*

226 *Id.*

227 *See* Hellman, *supra* note 79 (noting that the Macmillan CEO questioned how free access by public libraries could be a good model for publishers in the digital age).

228 *See supra* Part I.B.

229 Cichoki, *supra* note 15, at 38.

230 *Id.*

231 *Id.* at 40.

232 Spalding, *supra* note 63.

233 Id.

234 *Id.*

their collection would remain intact.[235] Under a licensing system, however, the collection *will* disappear because it is only available as long as libraries can afford to provide access to it.[236] A budget cut to a library in the digital age may render it unable to pay its licensing fees and, as a result, cause the loss of fifty percent or more of the library's "collection" overnight.[237] Under a licensing regime, libraries will no longer be permanent repositories of knowledge but fair weather entities whose very existence depends on the health of the stock market.

The e-book licensing model also isolates libraries from the market power of consumers.[238] When the first sale doctrine had some weight, libraries were subjected to the same price models as everyone else but reaped a much larger return on their investment because the books they purchased were read over and over again.[239] They spread the cost of access,[240] and secondary markets ensured that this cost remained low.[241] However, as e-books are licensed, not sold, they cannot be resold without the publishers' permission.[242] Thus, libraries will no longer be able to access works through secondhand stores, donations, or interlibrary loan. With these secondary markets eliminated, publishers can, and do, charge libraries more than the average consumers.[243] While a consumer might pay a one-time fee of $9.99 for unlimited access to an e-book, a library must pay a costly subscription fee, year after year, to ensure they can continue to provide access to that copyrighted work.[244] As publishers charge higher prices, libraries will no longer be cost-effective, and communities will find it increasingly difficult to fund their operations.

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235 *Id.*

236 *Id.*

237 *See id.* (noting that publishers will offer large 'packages' to libraries that "provide rental access to a collection that would take years to build up in a traditional buying-and-owning model" yet the library's ability to access that collection "will only be as good as their last subscription check."); Michael Kelley, *Cornell University Library Takes Stand Against Non-Disclosure Agreements*, Mar. 23, 2011, http://www.libraryjournal.com/lj/home/889820-264/cornell_university_library_takes_stand.html.csp, (noting the anticompetitive nature of licensing agreements had become "more pressing given budget constraints and the fact that over half of the library's collection budget . . . went toward licensing electronic resources.").

238 *See* Spalding, *supra* note 63.

239 *Id.*

240 *See id.*

241 *Id.*

242 *Id.*

243 *Id.*

244 *See, e.g.*, Cichoki, *supra* note 15, at 39–40 (discussing the subscription fees involved in the license agreements of NetLibrary).

Further, libraries face significant barriers when they attempt to aggregate their bargaining power in order to negotiate license agreements that preserve library privileges.[245] The most recent effort, led by the Chief Officers of State Library Agencies ("COSLA"), sought to create "[a] single, national purchasing point" for libraries in order to consolidate bargaining power and "create real leverage" when it comes to negotiating license agreements with publishers.[246] Unfortunately, these efforts have been hampered by the fact that most libraries receive the bulk of their funding from local sources, which are often hesitant to dish out limited funds for the benefit of libraries nationwide.[247] Publishers are also not eager to work with a national organization designed to bully them into offering e-books at lower prices when they already face increasing pressure from disgruntled authors and consumers.[248] Thus, despite the need for efforts such as COSLA's, they face several obstacles that may impede their ultimate success.

Finally, libraries are slowly losing control of their content to publishers. Because publishers retain control of their e-books, they can restrict libraries from exercising rights they would otherwise enjoy under the Copyright Act.[249] For example, license agreements often prohibit libraries from copying parts of the works for their patrons or participating in interlibrary loans, although these two activities are explicitly authorized in § 108 of the Copyright Act.[250] Yet because the Act explicitly states that such exemptions do not excuse libraries from "adher[ing] to any contractual terms it accepted at the time it acquired a

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245 Josh Hadro & Norman Oder, *COSLA's eBook Feasibility Report Suggests National Buying Pool*, LIBRARYJOURNAL.COM, (July 18, 2010), http://www.libraryjournal.com/lj/home/886084-264/coslas_ebook_feasibility_report_suggests.html.csp.

246 *Id.*

247 *See* PINPOINT LOGIC, CHIEF OFFICERS OF STATE LIBRARY AGENCIES, COSLA: E-BOOK FEASIBILITY STUDY FOR PUBLIC LIBRARIES 11 (2010), *available at* http://www.cosla.org/documents/COSLA2270_Report_Final1.pdf ("Most [public library managers and staff] expressed concern about being able to present convincing, current data to their funders at the local level showing they spent their money wisely in consortial efforts. This is crucial to encouraging widespread participation. Members of a collective buying group need continuous, local measures that tell the right story about expanded access to resources at reduced costs. Libraries need to demonstrate value to the community that paid their fair share of the load.").

248 *Id.*

249 *See* Cichoki, *supra* note 15, at 30–41 (discussing how licensing terms prevent library functions such as preservation and replacement, reproduction, and fair use).

250 *Id.* at 40.

copy of the work," they afford libraries no relief from the restrictions imposed by current licensing models.[251]

The fact that publishers retain control of their content also means that they can alter the terms of the license agreement, or revoke access to their content, at any time.[252] For example, one library in the United Kingdom recently lent a book, on accident, to a patron outside of its designated geographical service area.[253] In response, the Publisher's Association amended its lending guidelines to prevent all libraries from engaging in remote lending of e-books at any time.[254] Now, libraries in the United Kingdom can only lend e-books to patrons when they are physically present at a library branch.[255] Exemptions to the guideline will be made *by the publishers*, not the libraries, on a case-by-case basis.[256] This is a prime example of how publishers, not libraries, now dictate when and how libraries will lend their books. By utilizing the new economic power afforded them by the digital era, publishers can lay a heavy hand on library operations and shape them to their liking.[257] Rather than becoming independent arbiters of copyrighted content, e-book licenses are turning once independent libraries into mere interfaces for accessing publishers' copyrighted content.[258] If libraries continue to lose all autonomy from copyright owners, there is no reason publishers could not eradicate library lending completely.

III. PRESERVING FREE ACCESS AND THE FIRST SALE DOCTRINE:

A. Publisher-Library Partnership

In 2001, Congress chose to abdicate the pro-dissemination policy underlying copyright law and let market theory play out over the course of the next

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251 *Id.* at 39.

252 *See, e.g.*, Brad Stone, *Amazon Erases Orwell Books From Kindle*, N.Y. TIMES, July 18, 2009, http://www.nytimes.com/2009/07/18/technology/companies/18amazon.html?scp=5&sq=&st=nyt (discussing how Amazon remotely deleted editions of George Orwell's *1984* and *Animal Farm* from users' Kindles).

253 David Rapp, *UK Publishers Association Proposes Restricting Remote Library eBook Lending*, LIBRARYJOURNAL.COM (Oct. 22, 2010), http://www.libraryjournal.com/lj/home/887416-264/uk_publishers_association_proposes_restricting.html.csp.

254 *Id.*

255 *Id.*

256 *Id.*

257 Cichoki, *supra* note 15, at 40.

258 *Id.*

decade.[259] Since then, sales have shifted to licenses, and almost every traditional form of media has gone digital.[260] Yet despite the fact that licenses have become the norm for publisher-consumer transactions, the threats posed by digital media to established copyright regimes are far from resolved.[261] While everyone waits for digital licensing to discourage piracy and preserve their shrinking profit margins, these licenses are destroying libraries and rendering it impossible for them to fulfill their historic mission of preserving access to information for posterity.[262]

This Section argues that, while it may be too late to avoid digital licensing altogether, this negative side effect could be avoided if Congress simply preserved the application of the first sale doctrine in publisher-library transactions. Such a digital first sale doctrine would ensure the continued existence of a sacred democratic institution and do little to hurt publishers' efforts to ensure their continued viability in the digital age.

First, free and convenient access to e-books could help curb the shift to piracy. E-books are currently pirated for three main reasons: 1) to obtain access for free; 2) to preview the copy before it is purchased; and 3) to avoid frustrating restrictions on use.[263] Under the first sale doctrine, libraries offered the free access most pirates seek: the ability to browse and read books without any financial investment, with few restrictions.[264] Currently, however, license restrictions make it extremely difficult for libraries to offer access to e-books in a convenient and cost-effective manner.[265] E-books are often distributed to libraries long after they are released for sale and often at strictly limited numbers that cannot flexibly respond to patron demands.[266] These limitations make libraries an ineffective and frustrating source of e-books.[267] As a result, publishers are crippling a prominent and legal alternative to consumer piracy. If publishers begin actually selling rather than licensing e-books to libraries, thus preserving the first sale

259 *See supra* Part II.A.

260 Cichoki, *supra* note 15, at 39 (discussing how "digital formats and licensing negotiations" are being used by a variety of digital content providers, and are altering "the terms of how information is exchanged and made available").

261 *See supra* Part II.B.

262 Spalding, *supra* note 63.

263 Magee, *supra* note 152.

264 *See supra* Part I.B.

265 Spalding, *supra* note 63.

266 Francine Fialkoff, *DBW Library Publisher Panel Makes the Case for eBook Lending*, LIBRARYJOURNAL.COM (Jan 26, 2011), http://www.libraryjournal.com/lj/home/888975-264/dbw_library-publisher_panel_makes_the.html.csp.

267 *See id.*

privileges that make them convenient and easy to access, would-be pirates would have a convenient, viable (and legal) alternative to piracy when they wanted access to a book without paying for it.[268]

Second, geographical restrictions can and will be preserved in the digital age, thus moderating the effect of library lending upon publishers' profits. It is extremely improbable that libraries will ever provide universal access to their collections because libraries are community-centered organizations.[269] They are funded by—and their operations are tailored to—the specific communities they serve.[270] Just as these communities hesitate to fund national efforts to combine the market power of libraries nationwide without concrete local benefits,[271] they will not want to fund library access without at least some assurance that the resulting benefits will be confined to those who subsidize it. Thus, publishers can rest assured that libraries do not need to be constrained by restrictive licenses to ensure their operations remain geographically limited in scope.

Third, preserving a first sale doctrine for libraries in the digital age will not eliminate the other rights and privileges publishers enjoy under the Copyright Act.[272] Publishers will still have exclusive rights over their copyrighted works; if libraries or their patrons copy e-books and distribute them freely, publishers will be able to seek redress in the federal courts.[273] Avoiding these expensive lawsuits is of paramount importance to libraries and their limited budgets.[274] Because publishers can and will sue to enforce their exclusive rights, libraries have every incentive to ensure that their patrons cannot illegally copy or pirate their books.[275] Thus, when libraries loan publishers' e-books, it will be

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268 Granted, this is assuming that these pirates are also potential library patrons. However, even if they are not, that would still suggest that library lending would at the very least not add to the growing number of e-book pirates.

269 Lorcan Dempsey, *Libraries and the Long Tail: Some Thoughts About Libraries in a Network Age*, D-LIB MAG., Apr. 2006, http://www.dlib.org/dlib/april06/dempsey/04dempsey.html ("The library collection is driven by local perception of need and available resources: collection development activities exist to balance resource and need. A large research library and a busy public library system will [thus] have different profiles . . . .").

270 *See* Hadro & Oder, *supra* note 245.

271 *Id*.

272 *See* Seringhaus, *supra* note 9, at 161.

273 *See* Friedman, *supra* note 50, at 646.

274 *See* Brief for American Library Association et al. as Amici Curae Supporting Petitioner, Costco Wholesale Corp. v. Omega, 131 S. Ct. 565 (2010) (No. 08-1423) ("[A]s nonprofit institutions, libraries have highly constrained legal budgets and must avoid the appearance of impropriety so as to retain public trust.").

in a controlled environment with rules and policies that librarians will strictly enforce.

Fourth, recent studies suggest that promoting books through free access may potentially boost e-book sales.[276] Authors and publishers are increasingly giving away e-books for free in order to increase interest in—and visibility of—their copyrighted works.[277] Evidence suggests that these free e-books can be an effective short-term promotional tool, "a way of distinguishing a less-well-known author from the marketing juggernauts of the most popular books."[278] A recent study by two professors at Brigham Young University, while not conclusive, hesitantly confirmed, "free digital book distribution [by publishers] tends to increase print sales."[279] However, not all publishers are in favor of free e-books.[280] Some fear that if the market is flooded with free e-books, they may supplant purchased e-books.[281] As one publisher once said, "free is not a business model."[282]

If publishers want to offer readers a chance to explore e-books and boost consumer interest without risking the dangers of a 'free business model,' there is a logical alternative: libraries. Libraries allow patrons to browse titles, browse within books, and even read a book without fostering any general sense of entitlement because libraries are the one place the American public expects to be able to access books and other information for free. By partnering with libraries, publishers can utilize this expectation to achieve the promotional benefits of free e-book titles without running the risk that the free titles will supplant their own sales.

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275 *See, e.g.*, Katie Hafner, *Publishers Sue Georgia State on Digital Reading Matter*, N.Y. TIMES, Apr. 16, 2008, http://www.nytimes.com/2008/04/16/technology/16school.html (discussing how publishers recently filed a lawsuit against Georgia State University for acts of copyright infringement that allegedly occurred in its libraries).

276 John Hilton III & David Wiley, *The Short Term Influence of Free Digital Versions of Books on Print Sales*, J. OF ELEC. PUBL'G, (2010), http://quod.lib.umich.edu/cgi/t/text/text-idx?c=jep;view=text;rgn=main;idno=3336451.0013.101 (last visited Feb. 18, 2011); OVERDRIVE, HOW EBOOK CATALOGS AT PUBLIC LIBRARIES DRIVE PUBLISHERS' BOOK SALES AND PROFITS 8 (2010), *available at* http://www.overdrive.com/files/PubWhitePaper.pdf (suggesting that e-books in libraries could help publishers promote books and increase sales).

277 Motoko Rich, *With Kindle, the Best Sellers Don't Need to Sell*, N.Y. TIMES, Jan. 22, 2010, http://www.nytimes.com/2010/01/23/books/23kindle.html.

278 *Id.*

279 Hilton & Wiley, *supra* note 276.

280 Rich, *supra* note 277.

281 *Id.*

282 David Carr, *Would an iTunes Model Save Newspapers?*, N.Y. TIMES, Jan. 12, 2009, http://www.nytimes.com/2009/01/12/technology/12iht-carr.4.19289554.html.

These library websites also offer publishers a cost-effective way to market their books.[283] The long tradition of public libraries as sources of literature and knowledge makes their websites a natural place for consumers to search for e-book titles to browse and borrow.[284] A recent report suggests that libraries can become a source of revenue for publishers by acting as "on-demand retail outlets."[285] For example, the New York Public Library purchased two e-book copies of Sarah Blake's novel *The Postmistress*.[286] The two copies remained checked out throughout the month of February.[287] Nevertheless, "*[t]he Postmistress* eBook title page at New York Public Library was viewed 53 times."[288] If such an e-book title page also contained a link to a website where the e-book could be purchased, any patron who wanted to read the e-book immediately, without waiting for its return to the library, could do so.[289] Libraries could thus ultimately enhance, rather than hurt, a publisher's retail sales.[290]

In light of these factors, it is extremely unlikely that any congressional effort to preserve the first sale doctrine in the realm of library lending will have the disastrous consequences publishers predict. If anything, preserving the first sale doctrine may even help publishers curb consumer antagonism and limit the effects of digital piracy. Further, if Congress does preserve the first sale doctrine, the benefits to libraries and society as a whole are enormous. Public libraries champion the ideals of freedom of speech, independence, and the American dream. President Franklin Roosevelt stated that libraries were "essential to the functioning of a democratic society," one of "the great tools of scholarship, the great repositories of culture, and the great symbols of the freedom of the mind."[291] Over the course of the last century, there has been no question in the minds of the public, of Congress, or the courts that "public access to information and the existence of free public libraries" are vastly important to the well being

283 OVERDRIVE, *supra* note 276, at 7.

284 *Id.* at 6–7.

285 *Id.* at 7.

286 *Id.*

287 *Id.*

288 *Id.*

289 *Id.* at 7–8.

290 *Id.* at 8 (noting that "Retail outlets such as LibraryBIN [that link users to retail sites from library websites] reinforce that library sales do not come at the expense of retail sales – rather, library availability enhances retail sales.").

291 GORDON, *supra* note 1.

of our democratic society.[292] And while libraries are important to the well being of society, the first sale doctrine is fundamental to the well being of libraries.[293]

IV. CONCLUSION

The decision to let economics, rather than social policy, drive the future of the first sale doctrine and libraries in the digital era now threatens the existence of both.[294] Motivated by the financial fears of copyright giants, Americans have surrendered free access in exchange for a system where ideas cannot be shared or explored without paying a price. Forums for discussion and commentary are being silenced by lawsuits and license agreements, and the courts, constrained by congressional apathy, are turning a deaf ear. By sanctioning the licensing of intellectual property, the very backbone of social progress and creativity, Congress has unwittingly fulfilled the dire prophecy made by Representative Parkinson back in 1908, allowing Publishers to "fix any condition" on how and when the American public can access information in the most basic of democratic institutions: the library.[295]

No advantage is served by denying libraries a digital first sale doctrine: for publishers, for authors, or for the American public. Only Congress can abandon the economic principles plaguing copyright jurisprudence and ensure that libraries can continue to safeguard free access to information for the benefit of society as a whole.

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292 Gasaway, *supra* note 3, at 116.

293 *See supra* Part I.B. It is important to note that preserving a first sale doctrine solely for publisher-library transactions without more would still eliminate the secondary markets libraries economically depend on. *Id*. This paper argues for a first sale doctrine for libraries, and not the general public, because digital licensing has already become the norm in e-book transactions and thus would likely be extremely difficult to eradicate completely. This means, however, that any digital first sale doctrine enacted by Congress for the sake of libraries would need to address the potential for price discrimination and ensure that the prices at which e-books are sold to libraries remain comparable to the license fees charged to the average consumer.

294 *See generally* Cichoki, *supra* note 15, at 29 (discussing how digital licensing calls into question the role of the public library); Reese, *supra* note 20, at 577 (discussing how the growth of digital technology has undermined the first sale doctrine); Travis, *supra* note 124, at 764 (discussing how the current regime of copyright protection threatens the creation of universal digital libraries).

295 *Common-Law Rights as Applied to Copyright*, *supra* note 24, at 35.