Canadian Journal of Law and Technology

Volume 12 | Number 2 Article 4

6-1-2014

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I. INTRODUCTION

"Music is enough for a lifetime, but a lifetime is not enough for music." Those are the words of Russian Romantic Composer Sergei Rachmaninov. On the surface, Rachmaninov suggests that human mortality limits an individual's musical exposure to a mere sliver of the vast body that exists. If one delves deeper, music can be construed as a cosmic force that outlives its listener. In this way, music is eternal. Copyright is an attempt to fulfill our needs as transient beings by extracting commercial value from something that is eternal. It is a legal construct that subdivides the amorphous body of music and other forms of creative expression into individual parcels of personal property. Society has decided that just compensation for creators is the path towards encouraging further creation and dissemination of these creative works. The first sale doctrine is one particular tool that carries out this objective. By permitting resale on the secondary market, works are able to reach an even wider audience.

After operating for over a century in the physical world, the first sale doctrine faces unique challenges in an age where content is increasingly in digital form. The doctrine's creators could not foresee how effortless the Internet has made mass distribution. Nor could they foresee how the quality of a used copy could remain unchanged even with the passage of time. However, just because "the song remains the same,"[1] does not mean that the law should. This article posits that the prevalence of digital content and Internet distribution necessitates the continued operation of the first sale doctrine. Legislative amendments that embrace technological neutrality can achieve this. The resultant digital secondary market will further the objective of copyright by allowing for wider dissemination of content. But it must be crafted such that: (1) used sellers cannot unlawfully distribute multiple copies; and (2) copyright owners are compensated for their resold work.

This article will explore the origins and rationale for the first sale doctrine. A review of the most recent American case law shows the court rejecting the doctrine's applicability in a digital sphere. I suggest that in spite of the court's rigid interpretation of the U.S. *Copyright Act*, formulating a digital first sale doctrine is a matter better left to lawmakers. A flourishing digital secondary market can promote

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1 Led Zeppelin, "The Song Remains the Same", *Houses of the Holy* (Atlantic Records, 1973).

competition and innovation while making content more accessible to the public, but its endorsement requires an appreciation of its adverse effect on the primary market for copyright owners. The article fast-forwards to a look at what a digital secondary market can look like. I recommend creating a resale royalty for copyright owners in order to maintain a sufficient incentive to create. Also, I suggest that forward-and-delete technology without digital rights management is the best architectural solution for digital resellers.

II. THE MARKETPLACE FOR PRE-OWNED DIGITAL WORKS

Most of us have recently scrolled through our iTunes media library only to discover a significant amount of music that we "used to" love.[2] Nickleback and Souljaboy may have been all the rage in the mid-2000s, but sometimes our lust for "radio friendly unit shifters"[3] can be fleeting. Just as I am typing these words, the memory of Pitbull, and his 2011 smash hit with Jennifer Lopez "On the Floor" is rapidly slipping away from us. But any time an individual wanted to resell their used content, whether in CD, DVD, vinyl, or even book form, there was always a bricks and mortar shop to facilitate this transaction. The advent of the Internet and website likes Amazon, eBay, and Kijiji made this process much easier and more accessible. But today, a great deal of our content, especially music, does not exist in tangible form *per se*.[4] It is contained in a digital file stored on our computer's hard drive. Several businesses have recognized a vacuum and either offer or plan to offer services that facilitate an online secondary market for used digital content.

(a) ReDigi

ReDigi prides itself as being the "world's first online marketplace for used digital music."[5] It allows users to buy and sell legally acquired digital files contain-

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2 ReDigi Help Centre (March 2013), online: ReDigi <https://www.redigi.com/site/faq.html>.

3 Kurt Cobain, "Radio-Friendly Unit Shifter", *In Utero* (David Geffen Company, 1993).

4 While this statement is made somewhat anecdotally, supporting statistics do exist. For instance, according to the Measuring the Information Society 2013, more than 55 per cent of households with a TV receive a digital signal, compared with just 30 per cent in 2008. See International Telecommunication Union, Press Release, "Television now 55% digital as Analogue Broadcasting Switch-off advances Worldwide" (21 November 2013) online: International Telecommunication Union <http://www.itu.int/net/pressoffice/press_releases/2013/62.aspx#.U_qDgrywL7Q>. Also, Pew Research reported in 2010 that 65% of Internet users have paid to access or download some kind of digital content, with music representing 33%. If one accounts for free file sharing, it is likely that more than 65% of Internet users access online content. See Jim Jansen, "65% of internet users have paid for online content", *PewResearch Internet Project* (30 December 2010) online: PewResearch <http://www.pewinternet.org/2010/12/30/65-of-internet-users-have-paid-for-online-content/>.

5 ReDigi, Press Release, "ReDigi™, The World's First Online Marketplace For Used Digital Music Set to Launch" (11 October 2011) online: ReDigi <http://newsroom.redigi.com/redigi-the-worlds-first-online-marketplace-for-used-digital-music-set-to-launch/> ["First Online Marketplace"].

ing music, software, ebooks, or audiobooks, at a fraction of their original price. CEO John Ossenmacher explains the idea behind ReDigi and the secondary market: "A piece of music. . . is rediscovered all of the time. The beauty of the secondary market is that it connects old fans and new fans, and ReDigi allows this synergy to prevail in the digital space."[6]

How does it work? ReDigi's recently awarded patent explains the three apparatuses that facilitate transactions.[7] To be eligible for sale, a "verification engine" ensures that a digital file was legally acquired. A legal acquisition includes a purchase from the iTunes store,[8] but excludes content ripped from CDs, DVDs, or other physical mediums. Once verified, the file is transferred to ReDigi's "Cloud Locker" through an "atomic transaction." Sophisticated forward-and-delete technology (FADT) migrates a user's file via data-train so that copies of data do not exist in two places simultaneously.[9] A digital management application scans a seller's computer and any synched devices to remove any personal-use copies of the file. When a seller chooses to sell the file, his access to it is terminated and transferred to the buyer. The buyer can then download the file (with any accompanying license) from the Cloud Locker to their computer or device.[10]

Users buy music with credits they purchased from ReDigi or acquired from other sales.[11] ReDigi prices digital music files from $0.59 to $0.79, compared to the $0.99 to $1.29 for new music on iTunes.[12] Upon the sale of a file, 20% of the sale price is allocated to the seller, another 20% to an "escrow" fund for the artist

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6 *Ibid.*

7 "Methods And Apparatus For Sharing, Transferring And Removing Previously Owned Digital Media," US Patent No 8627500 B2, (31 December 2010), online: United States Patent and Trademark Office <http://www.uspto.gov/web/patents/patog/week01/OG/html/1398-1/US08627500-20140107.html> [Patent, Apparatus for Sharing].

8 It is important to note that music purchases from the iTunes Store are purchases, and not licenses. While Apple's EULA imposes usage restrictions (e.g. you can only use an iTune product on five authorized devices), Wong suggests that these clauses are meant only to prevent unauthorized copying. Therefore, the "ownership in the copy" requirement of the first sale doctrine is satisfied for music purchased from iTunes. See Claudine Wong, "Can Bruce Willis leave his iTunes collection to his children? Inheritability of digital media in the face of EULAs" (2013) 29 Santa Clara Computer & High Tech LJ 703.

9 *Capitol Records LLC v. Redigi Inc.*, 934 F. Supp. (2d) 640 (2013).

10 *Ibid.*

11 *Ibid.*

12 Top Selling Music (March 2013), online: ReDigi <https://www.redigi.com/site/genre.html?type=music>; Music Downloads on iTunes (March 2013), online: Apple iTunes <https://itunes.apple.com/ca/genre/music/id34>.

and the remaining 60% goes to ReDigi.[13] As of October 2011, there were over 11 million songs on ReDigi's catalogue.[14]

(b) Apple

Apple filed a patent application in May 2013 for the transfer of used digital goods from one user to another. Its process is slightly different than ReDigi's. Transfers can occur through the original content provider's store or directly between users. Upon transfer, the primary market seller enforces the access rights to the digital content by storing data on which user currently has access to the particular file. Once the transferee gains access, the transferor loses access. This method will allow users to access the primary and secondary market through one provider, iTunes.[15] Finally, a portion of the proceeds from a resale may be paid to the seller and the copyright owner.[16]

(c) Amazon

Amazon's "secondary market for digital objects" patent was awarded in January 2013. It allows users to transfer used digital objects to others while maintaining scarcity.[17] This process is similar to ReDigi's in that a digital file is stored in a user's personalized data store, presumably on the cloud. Upon resale, the seller relinquishes access to the file by copying it to another user's personalized data store, before the original is deleted from the seller's own data store. This form of FADT differs from ReDigi because both the buyer and seller will simultaneously own the copy, even if for only a moment in time.[18] Another major difference is the implementation of digital rights management (DRM). The effect is that a user will be unable to resell a particular digital file after a threshold number of transfers.[19] Lastly, there is nothing in Amazon's patent that addresses artist compensation.[20]

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13 ReDigi, Press Release, "ReDigi Launches Artist Syndication Program and iTunes Partnership For New and Pre-Owned Digital Music" (12 June 2012) online: ReDigi <http://newsroom.redigi.com/redigi-launches-artist-syndication-program-and-itunes-partnership-for-new-and-pre-owned-digital-music/> ["Artist Syndication Program"].

14 "First Online Marketplace", *supra* note 5.

15 "Managing Access to Digital Content Items," US Patent No 20130060616 A1 (22 June 2013) [Patent, "Managing Access"].

16 Lauren Indvik, "Apple and Amazon Lay Foundations for 'Used' Digital Goods Stores", *Mashable* (8 March 2013) online: Mashable <http://mashable.com/2013/03/08/apple-amazon-used-goods-marketplaces/>.

17 "Secondary Market for Digital Objects," US Patent No 8,364,595 (5 May 2009), online: United States Patent and Trademark Office <http://patft.uspto.gov/netacgi/nph-Parser?Sect1=PTO1&Sect2=HITOFF&d=PALL&p=1&u=%2Fnetahtml%2FPTO%2Fsrchnum.htm&r=1&f=G&l=50&s1=8,364,595.PN.&OS=PN/8,364,595&RS=PN/8,364,595>.

18 ReDigi, Press Release, "ReDigi Issues Statement on Amazon's Patent for the Resale of Digital Goods" (6 February 2013), online: ReDigi <http://newsroom.redigi.com/redigi-issues-statement-on-amazons-patent-for-the-resale-of-used-digital-goods/>.

19 "Artist Syndication Program" *supra* note 13.

20 "First Online Marketplace", *supra* note 5.

III. PRINCIPLES OF U.S. COPYRIGHT LAW

The Copyright and Patent clause of the U.S. *Constitution*[21] is meant to incentivize creators to create by offering them a limited time monopoly in the rights to their work.[22] But there is an underlying philosophical tension between user and creator rights that must constantly be balanced. Time limits, fair use, the first sale doctrine, and other user rights bolster the premise that copyright compensates owners in order to advance the public interest in increased accessibility to creative content.

(a) Purpose of and Origin of Copyright

Under Article 1, section 8 of the U.S. *Constitution*, "The Congress shall have power . . . to promote the progress of science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."[23] This phrasing suggests that the primary purpose of copyright is to encourage the creation and dissemination of intellectual and cultural works. The incentive-to-create theory suggests that this is achieved by granting authors a limited monopoly in extracting economic value from the rights to their work.[24] While fair compensation is important, it is an overstatement to suggest that people create work solely to gain copyright. Therefore, the Copyright and Patent clause can be seen as empowering Congress to bargain with copyright owners on behalf of the public.[25]

Copyright owners are afforded this special property protection[26] because the thing that they own, the expression of their ideas, is not affected by natural scarcity.[27] In this way, copyright can be understood as a right of control over the copying of one's work. But the quality and ease of disseminating copies has progressed from the printing press to VCRs to the Internet. This is how technology is in constant tension with copyright. One example of this is the 1984 case of *Sony Corp. of*

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21 US Const.

22 This article primarily explores U.S. copyright law. Its rich statutory history and abundant jurisprudence provides an ample foundation for drawing conclusions on the state of law and its implications on the global music market place. This article does, however, consult Canadian and European statute and case law in an effort to inform conclusions about copyright law on a larger scale.

23 US Const art I, §8, cl 8.

24 Stephen M McJohn, *Copyright: examples and explanations* (New York: Wolters Kluwer Law & Business, 2012) at 3.

25 Huei-ju Tsai, "Media Neutrality in the Digital Era: A Study of the Peer-TO-Peer File Sharing Issues" (2005) 5 Chi-Kent J Intell Prop 46.

26 The temporary monopoly granted as a reward for innovation is a property right. See *Festo Corp v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722 (2002).

27 *Ibid.* See *Wheaton v. Peters*, 8 Pet. (33 U.S.) 591, 662 (1834). The Supreme Court, in its first copyright case, rules that there is no common law copyright by virtue of the word "securing".[27] Also see *Stephens v. Cady*, 55 U.S. 14 How, 528 528 (1852), where the court establishes that copyright and property rights are separate.

America v. Universal Studios Inc.[28] The court found that the time-shifting purpose of video tape recorders could not result in contributory infringement for the supplier, Sony. Hence, the court responded to technological pressure by preventing unwarranted expansion of the scope of copyright. However, the 1998 case of *Eldred v. Ashcroft* sees the Supreme Court take an expansive approach to copyright.[29] It upholds the constitutionality of the *Copyright Term Extension Act of 1998*,[30] which extended copyright protection to all existing works for an additional 20 years. The court felt that this was not beyond Congress' authority when it interpreted the phrase "limited terms" in the Copyright and Patent Clause.

(b) Subsistence of Copyright

Literary works, musical works (including any accompanying lyrics), motion pictures, and sound recordings, among others, are all copyrightable subject matter.[31] In order for copyright to subsist in an original work, it must be "fixed in any tangible medium of expression . . . from which they can be perceived."[32] A work is fixed when its embodiment in a copy or phonorecord is sufficiently permanent.[33] Both copies and phonorecords are material objects where a work can be perceived, either directly or with the aid of a machine or device.[34] For instance, a novel's story is a literary work that can be embodied in a copy such as a printed book, web page, or e-book. A musical work is the actual musical composition of a song. When an artist records their performance of that song, the sounds that are produced are considered a sound recording. That sound recording is fixed not in a copy, but in a phonorecord, which could include a CD, vinyl record, or MP3 file.[35]

(c) Section 106: Exclusive Rights of the Copyright Owner

A copyright owner has the exclusive right to economically benefit from the reproduction and distribution of copies or phonorecords of their work.[36] They are also able to adapt, publically perform, and publically display their work.[37] An individual infringes an author's copyright if they do what only the copyright owner is

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28 *Sony Corp. of America v. Universal City Studios Inc.*, 78 L.Ed.2d 574, 464 U.S. 417 (U.S. Sup. Ct., 1984).

29 *Eldred v. Ashcroft*, 537 U.S. 186, 154 L.Ed.2d 683 (2003).

30 *Sonny Bono Copyright Term Extension Act*, Pub L 105-298, title I, Oct. 27, 1998, 112 Stat 2827.

31 *Copyright Act of 1976*, 17 USC §102(a).

32 *Ibid* at §102(a).

33 *Ibid* at §101.

34 *Ibid.*

35 *Ibid.*

36 *Ibid* at §106.

37 *Ibid.*

empowered to do.[38] Liability for infringement is meant to prevent individuals from indulging in the benefits exclusively reserved for copyright owners.

Making unauthorized copies of a work infringes the author's reproduction right. In the case of a sound recording, infringement occurs only when a literal copy that recaptures the actual sounds fixed in the sound recording is created.[39] This includes "illegally" downloading MP3 or video files from a peer-to-peer file (P2P) sharing service. But even if you pay to legally download music files from iTunes for example, a temporary copy of the work is stored in the computer's random access memory (RAM).[40] Is this still considered an infringing copy? Recent amendments to the *Copyright Act* indirectly indicate that a temporary copy made within a computer can be a potentially infringing copy. Section 117 carves out an exception to infringement where a copy owner of a computer program authorizes the making of another copy if: 1) it is created as an essential step in the utilization of the computer; or 2) it is for archival purposes and archived copies are destroyed when the user no longer owns the computer program.[41] There would be no need to enact such a provision if temporary copies were not generally considered infringing copies.

The copyright holder also has the exclusive right to "distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by . . . lending."[42] This enables a copyright owner, e.g. the record company, to sell phonorecords, e.g. CDs or MP3 files, to retailers such as iTunes (or bricks and mortar record stores). Infringement of the distribution right could arise if a P2P service allows users to download unauthorized copies of music files.

(d) The First Sale Doctrine

As a limit on a copyright owner's public distribution right, the first sale doctrine allows a secondary market for copies of works to exist. After a copyright owner sells a copy of their work for the first time, they exhaust their distribution right to that particular copy. Section 109(a) stipulates that the *owner* of a *particular lawfully made* copy or phonorecord is entitled to sell or dispose of *their copy* without the authority of the copyright owner.[43] The copy owner does not, however, have the right to infringe the copyright owner's other exclusive rights. They cannot copy, adapt, or publically perform the work, unless it is authorized or protected under another provision in the *Act*.[44]

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38 Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122 or of the author as provided in section 106A(a) . . . is an infringer of the copyright . . . of the author, as the case may be. See *ibid* at §501(a).

39 *Ibid* at §114.

40 This process is referred to as a digital phonorecord delivery. See Jenna Hentoff, "Compulsory Licensing Of Musical Works In The Digital Age: Why The Current Process Is Ineffective & How Congress Is Attempting To Fix It" (2008) 8 J. High Tech. L. 113.

41 *Ibid* at §117(a).

42 *Ibid* at §106(3).

43 *Ibid* at §109(a).

44 *Ibid* at §501(a).

Firstly, the doctrine requires that the transferee of a distribution gain ownership in the copy. A licensee is not protected. Secondly, the doctrine does not apply if an individual acquires a pirated copy because it is not "lawfully made." Lastly, protections only apply to the "particular copy" owned.[45] This means copying and selling a music file could infringe both the reproduction and distribution right. It is important to note that section 109 does not explicitly require that copies be in physical form for the doctrine to apply.

IV. IS A DIGITAL FIRST SALE DOCTRINE POSSIBLE UNDER THE CURRENT LAW?

Yes. I posit that it is possible for courts to interpret section 109 in its current form as applying to digital works, without them appearing interventionist. Firstly, such an interpretation requires a flexible reading of "that copy" based on the functional equivalence of FADT. Secondly, the court must place more emphasis on the essence behind the first sale doctrine and the purpose of the *Copyright Act*. In spite of my position, I suggest that it is best for Congress, and not the courts, to modify section 109 because of the complex policy implications at play.

Before arriving at this conclusion, I trace how the first sale doctrine was formulated in order to expose its true purpose. A leap forward to 1998 sees the Copyright Office reject the application of the first sale doctrine to digital file transmissions with its Section 104 Report. In 2012, the court in *Capitol Records v. ReDigi* also rejects the doctrine on similar grounds as the Copyright Office. The EU case of *UsedSoft v. Oracle* accepts a digital first sale doctrine in the software context. But the persuasiveness of this case may be limited because of an important distinguishing factor. Lastly, I present the ambiguity of the first sale doctrine's existence in Canadian copyright law.

(a) Origin and Rationale for the First Sale Doctrine

The first sale doctrine is premised on a property owner's right to alienate their lawfully acquired personal property. It became law in 1908 with the *Bobbs-Merrill Co v. Straus*[46] decision. Bobbs Merrill, the copyright owner in the *The Castaway*, attempted to prohibit a retailer from selling copies of the book for less than one dollar. The US Supreme Court held that in absence of a contractual agreement stating otherwise, the exclusive right to "vend" exhausts after the first sale to the purchaser.[47] It reasoned that granting a copyright owner the "authority to control all future retail sales" would enlarge the purpose of the statute beyond its legislative intent.[48]

Only one year passed before Congress codified the doctrine in the *Copyright Act of 1909*. Section 41 provided that "nothing in the Act shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of

45 *Ibid* at §109(a).

46 *Ibid.*

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

48 *Ibid.*

which has been lawfully obtained."[49] The first sale doctrine remained largely in this form until it was replaced with the enactment of the *Copyright Act of 1976*.[50] In this version of the *Act*, the exclusive rights of copyright owners were enumerated in section 106.[51] The first sale doctrine is now construed as a limit to the distribution right, but its purpose remains the same.[52]

(b) The Digital Millennium Copyright Act

Concerns over the first sale doctrine's applicability in a digital world stem back as early as 1995. The Information Infrastructure Task Force, established by President Clinton, determined that the first sale doctrine did not protect Internet users who distributed copies.[53] The rationale was that a user would not be distributing their copy, but an unauthorized copy created by their computer.[54]

The *Digital Millennium Copyright Act* was enacted in 1998. It was intended to extend the reach of copyright to combat increased infringement caused by digital technology and the Internet. Congress required the Copyright Office to carefully examine the potential for a digital first sale doctrine. After launching a broad public inquiry, the Copyright Office also recommended against amending section 109 to include the transmission of digital files. The report's rationale focused on two unique challenges that digitization presents.

Firstly, the report expressed the view that the tangible nature of the copy is a defining element and not a "mere relic" of the first sale doctrine.[55] Unlike physical copies, digital copies do not degrade or become less desirable with time and use. Therefore, their transmission over the Internet can adversely affect the market for the original to a much greater degree than physical copies.

Secondly, the report explains that the transmission of a digital work over the Internet necessarily results in the transferee receiving a copy and the transferor retaining the original file. Section 109 specifically requires the transferor's "particular copy" be transferred to prevent them from infringing the copyright owner's reproduction right. However, FADT that automatically deletes the sender's copy was considered a potential solution to this problem. Ultimately, the Copyright Office found that the benefits of expanding section 109 did not outweigh the likelihood of increased harm.[56]

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49 *Copyright Act of 1909*, ch 320, §41, 35 Stat. 1075, 1084 (codified as amended at 17 USC §109(a) (2006)).

50 Gregory Capobianco, "Rethinking ReDigi: How a Characteristics-Based Test Advances the 'Digital First Sale' Doctrine Debate" (2012) 35 Cardozo L Rev 391 at 399.

51 One of these rights is that of distribution. See *Copyright Act*, *supra* note 31 at §106. *Ibid* at §101.

52 *Ibid.* Hr Rep No 94-1476, at 79 (1976), reprinted in 1976 USCCAN at 5659.

53 Evan Hess, "Code-ifying Copyright: An Architectural Solution To Digitally Expanding The First Sale Doctrine" (2013) 81 Fordham L Rev 1965 at 1995.

54 *Ibid.*

55 US Copyright Office, *DMCA Section 104 Report* (August 2001) at 86, online: US Copyright Office <http://www.copyright.gov/reports/studies/dmca/dmca_study.html>.

56 *Ibid* at 100.

(c) Digital First Sale Doctrine Rejected in *Capitol Records v. ReDigi*

Released in March 2013, the *Capitol Records LLC v. Redigi Inc.*[57] decision is the latest pronouncement that the first sale doctrine does not extend to resale of digital works. ReDigi's secondary marketplace offered for sale songs to which Capitol Records owned at least part of the copyright. Sullivan J. of the U.S. District Court held that ReDigi's service infringed Capitol Record's reproduction and distribution right because the first sale defence was inapplicable.[58]

The case confirms that reproduction occurs when a copyrighted work (in this case a sound recording) is fixed in a new material object. When a file is transferred from a user's computer to ReDigi's cloud, the "atomic transaction" process still creates a new digital copy, even though the original no longer exists. The result is the embodiment of a digital music file on a new hard disk. Sullivan J. cites *London-Sire Records Inc. v. John Doe*[59] in finding that it is the creation of a new, not additional, material object that implicates the reproduction right. Sullivan J. also holds that the first sale defence is limited to material items.

The Court's conclusion that ReDigi violated Capitol's reproduction right meant that the first sale defence could not apply in this case. Firstly, the digital music files sold on ReDigi are unlawful reproductions and therefore not "lawfully made."[60] Secondly, the nature of the "atomic transaction" makes it impossible for the user to sell their "particular" phonorecord through ReDigi. Absent the first sale defence, the sale of digital music files on ReDigi's website infringes Capitol's distribution right.[61]

Finally, the Court rejects what it considers as ReDigi's request to amend the *Copyright Act* to advance its own interests. Sullivan J. cites the Copyright Office's policy rationale for rejecting a digital first sale doctrine. He mentions that the doctrine was originally enacted in a world where the ease and speed of today's data transfer could not have been imagined. His position is that physical limitations that act as a natural brake on the secondary market may be desirable.[62]

(d) The Alternative View in the EU

In the 2012 decision of *UsedSoft GmbH v. Oracle International Corp*, the European Court of Justice held that the doctrine of first sale applies to digital software licenses.[63] A license agreement allowed Oracle users to download copies of its

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57 *Capitol Records LLC v. Redigi Inc.*, *supra* note 9.

58 *Ibid.*

59 *London-Sire Records Inc. v. John Doe*, 542 F. Supp. 2d 153. This case considered whether users of P2P software violated copyright owners' distribution rights. The court found that a download of a digital music file to the "appropriate segment of the [user's] hard disk" constitutes a "reproduction" on a new phonorecord. The court in *ReDigi* relies on this technical interpretation to find that the first sale doctrine could not apply in ReDigi's case, since it is not the same particular phonorecord being transmitted.

60 *Capitol Records LLC v. Redigi Inc.*, *supra* note 9.

61 *Ibid.*

62 *Ibid.*

63 *UsedSoft GmbH v. Oracle International Corp*, 2012 ECR I-00000, [2012] IP & T 830.

software from its website and to use it for an unlimited period. UsedSoft exists as a secondary market for used software licenses. Users could buy used Oracle licenses on UsedSoft and then download the software from Oracle's website. By authority of article 4 of the European Parliament and Council Directive (EC) 2009/24,[64] the court ruled that the right of distribution was exhausted when Oracle conferred to its users a right to use a copy of the software for an unlimited period. The court also held that the exhaustion principle applied to both tangible and intangible copies of a computer program, as long as the original copy became unusable upon resale.[65]

While I largely agree with the court's reasoning, one aspect of *UsedSoft* weakens its persuasive support for a digital first sale doctrine. *UsedSoft* can be distinguished from *ReDigi* because it is not as clear, when compared to an iTunes music purchase, whether a transfer of Oracle software to the initial user was an actual purchase. Ken Moon, an expert in information technology and copyright law in New Zealand, considers the decision to be legally flawed for this reason, among others. He argues that the test used to determine that Oracle's license was in fact a sale was "grossly simplistic." The CJEU only considered the clause granting unlimited use. The test from *Vernor v. Autodesk Inc.* would likely consider the agreement to be a license because: (1) a license was expressly granted; (2) the software was non-transferrable; and (3) exclusive internal business usage was a notable usage restriction.[66] The first sale defence would therefore not protect such a license.

I disagree with Moon's two other criticisms. Firstly, he argues that a subsequent license holder is downloading a different copy of the software.[67] Article 4(2) provides that the distribution right is not exhausted except where the first sale of *that object* is made.[68] I counter this point in Part V(f) with a discussion on how the first sale doctrine should be concerned with the functional equivalence of a digital transfer, and less so with the wording of its provision. Lastly, he points to the use of "object" to suggest that the doctrine only applies to works in physical form. This, however, would permit copyright owners to bypass a consumer's right to dispose of their personal property by making it available only via download.

(e) The Status in Canada

While the *Copyright Act* does not codify the first sale doctrine, amendments in 2012 have created a "making available right" similar to the distribution right in the U.S. For a work only in tangible form, section 3(1)(j) grants the copyright owner the right to transfer ownership in the tangible object only if ownership has never

64 *European Parliament and Council Directive* (EC) 2009/24, Art 4(2).

65 *UsedSoft GmbH v. Oracle International Corp*, 2012 ECR I-00000, [2012] IP & T 830.

66 *Vernor v. Autodesk Inc.*, 555 F. Supp. (2d) 1164.

67 Ken Moon, "Resale of Digital Content: UsedSoft v ReDigi" (2013) 24 Ent LR, Issue 6, online: AJ Park <http://www.ajpark.com/media/178539/resale_of_digital_content_-_usedsoft_v_redigi_published_in_entertainment_law_review_issue_6__2013.pdf>.

68 *European Parliament and Council Directive* (EC) 2009/24, Art 4(2).

been transferred before with its authorization.[69] The same right applies to copyright owners of a tangible sound recording.[70]

Leading entertainment lawyer Bob Tarantino surmises that, in light of these provisions, Canadian courts are likely to determine that an owner of a tangible copy, such as a CD, is free to sell or otherwise transfer it to another.[71] However, both of these provisions are explicit in that the copies must be tangible. It is difficult to predict which direction Canadian courts will take. If they construe the "tangibility" aspect of the statute rigidly, the story ends there and a digital first sale doctrine will not be imported to Canada. But the 2012 Copyright Pentalogy cases may offer some hope for the doctrine. This series of five simultaneous Supreme Court of Canada decisions on copyright sees the court embracing technological neutrality.[72] If the court continues to uphold this principle then a digital secondary market may not be out of reach in Canada.

(f) How the Transmission of Digital Files Can Be Read Into Section 109

(i) Abandon the Fixation on "That Particular Copy" Being Transferred

Renowned copyright law scholar David Nimmer asserts that the first sale defence consists of four "ingredients": 1) copy is lawfully made; 2) it was transferred under the copyright owner's authority; 3) the transferor is the lawful owner of the copy; and 4) the transferor disposed of "that copy."[73] Nimmer and the courts in *London-Sire* and *ReDigi* assert that a digital transmission of a new and different copy does not satisfy the fourth ingredient of section 109.[74] This interpretation is rigid and formalistic. It ignores the fact that transmission via FADT is functionally equivalent to a traditional in-person transfer of personal property. Both processes result in the existence of only one copy.

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69 *Copyright Act*, RSC, 1985, c C-42, s 3(1)(j).

70 *Ibid* at s 18(1.1)(b).

71 This prediction was made in reference to *UMG Recordings, Inc. v. Troy Augusto*, 628 F3d 1175, 2011 US App. The U.S. Court of Appeals for the Ninth Circuit determined that title does pass when promotional CDs are mailed out and therefore, the first sale doctrine is available.

72 See *Public Performance of Musical Works, Re*, 2012 SCC 34, 2012 CarswellNat 2377, 2012 CarswellNat 2376, [2012] S.C.J. No. 34 (S.C.C.); *Public Performance of Musical Works, Re*, 2012 SCC 35, 2012 CarswellNat 2379, 2012 CarswellNat 2378, [2012] S.C.J. No. 35 (S.C.C.); *Public Performance of Musical Works, Re*, 2012 SCC 36, 2012 CarswellNat 2381, 2012 CarswellNat 2380, [2012] S.C.J. No. 36 (S.C.C.) at para 27; *Alberta (Minister of Education) v. Canadian Copyright Licensing Agency*, 2012 SCC 37, [2012] S.C.J. No. 37, 2012 CarswellNat 2420, 2012 CarswellNat 2419 (S.C.C.); *Public Performance of Sound Recordings, Re*, 2012 SCC 38, [2012] 2 S.C.R. 376, 2012 CarswellNat 2383, 2012 CarswellNat 2382 (S.C.C.). See Part V(d) for a short discussion on technology neutrality as construed in *ESA*.

73 Melville B Nimmer & David Nimmer, *Nimmer On Copyright* (2013) at §8.12 [Nimmer]; Capobianco, *supra* note 51 at 413.

74 *Ibid*; *London-Sire Records Inc. v. John Doe*, *supra* note 60; *Capitol Records LLC v. Redigi Inc.*, *supra* note 9.

There are three rationales for this position. Firstly, a tranferor's particular copy is required to be transmitted to prevent them from keeping it and profiting from the sale of additional copies. Such an activity would undermine a copyright owner's economic rights from distribution. But in a FADT transfer, the transferor no longer has access to the original copy, making further distribution impossible. The Section 104 Report appears to support FADT technology as a non-infringing method of transfer.

The second argument as suggested by Hess is that the incidental copies that FADT creates are not sufficiently fixed to meet the definition of phonorecord. This means that no reproduction has occurred.[75] Following this logic, Barbour draws a parallel with the "essential step" exception to infringement for reproduction.[76] Under section 117, it can be argued that a FADT copy is similar to an archival copy of a computer program that is deleted upon transfer of possession.[77]

Lastly, a rigid interpretation leads to absurd results. The court in *ReDigi* suggests that unauthorized copies are sufficiently fixed on the "appropriate segment of the hard disk" of the transferee. In his article "Rebalancing at Resale," Serra points out the absurdity of requiring a consumer to transfer their entire hard disk to a buyer to avoid an incidental digital reproduction.[78]

(ii) Focus on the Purpose of the Copyright Act *and the Essence of the First Sale Doctrine*

Reading a digital first sale doctrine into section 109 fulfills the purposes of the *Copyright Act*. The doctrine of first sale was enacted because the secondary market leads to wider dissemination of intellectual and cultural works in the public domain. The copyright owner's interest is still satisfied because they were compensated for their intellectual labour on the first sale. This is why the court in *Bobbs-Merrill* felt that it was beyond the scope of copyright for an author to control a copy owner's right to alienate their copy. According to Barbour, such a monopoly would be an undue restrain on the dissemination of the work.[79]

V. SHOULD THE FIRST SALE DOCTRINE EXTEND TO THE TRANSMISSION OF DIGITAL COPIES?

Lawmakers have a responsibility to ensure that the law reflects current social and commercial realities. Congress will fulfill its legislative function by incorporating technologically neutral language into section 109. Doing so will allow the 105-year-old first sale doctrine to operate in our current digitized world, but also to continue beyond that. Such a conclusion cannot be reached without considering the unique challenges that digital copy transmission presents. The Internet makes con-

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75 Hess, *supra* at note 54 at 1996.

76 Adrienne Clare Barbour, "Used iTunes: The Legality of ReDigi's Model for a Second-Hand Digital Music Store Fall" (2012) 15 Tul J Tech & Intell Prop 165 at 196.

77 *Copyright Act*, *supra* note 31 at §117(a).

78 Theodore Serra, "Rebalancing At Resale: Redigi, Royalties, And The Digital Secondary Market" (2013) 93 BUL Rev 1753.

79 Babour, *supra* note 76.

tent sharing easier than ever. As a result, digital copies have become unique for their high degree of non-rivalry and non-excludability. This taken together with the consistent quality of used digital copies allow the secondary market to compete with the primary market. The recording industry has responded by simply changing the playing field: it has pursued expensive litigation to overcome its business competitors. This strategy, however, is futile in the face of a new "sharing economy." Ultimately, the salutary effects of a digital first sale doctrine outweigh its deleterious effects by promoting innovation, preventing consumer lock-in, and increasing affordability and availability.

(a) Physical vs. Digital Copy Transmissions: What is the Difference?

(i) Ease of Sharing via the Internet

The ease and speed of data transfer over the Internet has removed the natural brake of the offline physical world on the secondary market. The first sale doctrine was conceived in a world where the relatively new invention of the automobile made for a more efficient distribution system for goods. For ninety years the easiest way to shop for pre-owned goods was to walk, bike, or drive to the nearest bricks-and-mortar second-hand shop. Then the Internet changed everything. A consumer looking for used copies of copyrighted works could find one with ease on websites such as Amazon or eBay. The geographical distance between a buyer and a seller has been rendered meaningless in the global network the Internet created. But this process still entailed the physical shipment of goods to the customer. Once media became available in digital form, P2P file sharing utilized the Internet's capability as a digital distribution network. And today, services such as ReDigi strive to "legally" continue this expansive sharing through its own instantaneous transactions.

(ii) Rivalry

A good is rivalrous if only one person can consume one unit of it at one time.[80] In his article "Rethinking ReDigi," Capobianco suggests that a digital file containing copyrighted work is non-rivalrous because it can be copied at no cost and widely shared with others.[81] Some economists have suggested that this is the critical characteristic that a copy must exhibit for first sale purposes.[82] Physical works can be non-rivalrous if, for example, two people read one book at the same time. But digital works exhibit a much higher degree of non-rivalry because it is much easier to reproduce and disseminate copies via the Internet.

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80 Andrew D. Schwarz & Robert Bullis, "Rivalrous Consumption and the Boundaries of Copyright Law: Intellectual Property Lessons from Online Games" (2005) 10 Intell Prop L Bull 13 at 23.

81 Capobianco, *supra* note 51.

82 *Ibid.*

(iii) Excludability

Excludability is related to rivalry, but distinct. It is an economic concept referring to the ability of one to exclude another from consuming a resource.[83] Capobianco claims that digital copies are non-excludable because a copyright owner may not be able to exclude unlawful users from accessing pirated copies of their work.[84] The same issue arises in the physical world of distribution. But the potential for widespread pirating via the Internet makes non-excludability more salient in the digital context.

(iv) Lack of Degradation

The most important distinguishing feature of a digital file is that its quality does not degrade over time. This holds true for copies of digital files, which can be made if the physical hardware storing the original begins to degrade. The same cannot be said for a book or its photocopied version.

(v) Physicality: Why It May Not Matter

Characterizing the distinction between digital and physical copies as a tangible-intangible dichotomy oversimplifies the nature of a digital transmission. In rejecting a digital first sale doctrine, the Copyright Office expressed the view that the tangible nature of a copy is a defining element and not a "mere relic" of the doctrine.[85] This is based on a distinction made by the *Bobbs-Merrill* court between copyright ownership of intangible intellectual property and copy ownership of tangible personal property.[86] On the other hand, courts have held that the incidental copy made by FADT is sufficiently fixed in the transferee's hard disk to be considered an infringing reproduction. This suggests that a digital copy exists in physical form. But there is room to argue that the bits of data moving from the transferor's computer to another storage facility are transitory and therefore not sufficiently fixed to be tangible. Confused yet?

It appears that the court's rejection of a digital first sale doctrine premised on the creation of a new material object directly contradicts the Copyright Office's emphasis on the tangibility of the copy. This contradiction demonstrates how the courts, administrative bodies, and lawmakers have struggled to understand the complexity of digitization and computer technology. The debate is just as perplexing as determining whether an idea exists in the abstract or whether it is fixed in the thinker's brain as a material object. Perhaps these questions are better left to philosophers and computer engineers because the distinction is immaterial to lawmakers. Perhaps it is time to retire the artificial dividing line of tangibility vs. intangibility in this respect, and focus on the more accessible characteristics that distinguish physical works from digital works.

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83 David J Brennan, "Fair Price and Public Goods: A Theory of Value Applied to Retransmission" (2002) 22 Int'l Rev L & Econ 347 at 350.

84 Capobianco, *supra* note 51.

85 *DMCA Report*, *supra* note 36.

86 *Bobbs-Merrill Co v. Straus*, *supra* note 48.

(b) Why Record Companies Should Lay Down Their Guns

Major record companies and the RIAA argue that a secondary market for pre-owned digital music will attenuate the primary market for new music. Their proposed solution is to force litigation and thereby kill a fundamental legal doctrine that has been operating for over 100 years. Such an approach is short-sighted and directly contrary to the purpose of copyright law. The fight against a digital first sale doctrine is one that record companies cannot and should not win. Firstly, the prevalence of music in digital form necessitates a first sale defence for consumers. Secondly, the opposition from record companies represents a history of using the legal system for anticompetitive ends. Lastly, the shift to a sharing economy[87] is too great for record companies to overcome.

(i) Prevalence of Digital Music

The first sale doctrine is in desperate need of a digital facelift. The music industry has seen an explosion of digital content in the last decade and a half. Bricks-and-mortar music retailers such as HMV no longer rely solely on the sale of physical musical formats to sustain their business.[88] In 2013, digital accounted for 39 per cent of the music industry's $15.1 billion in global revenue.[89] Revenue from physical formats declined from 60 percent in 2011 to 51 percent in 2012.[90] Cloud storage, which is utilized by ReDigi, is gaining popularity. It had a $41 billion global market in 2010.[91] These new technologies make copying digital files — a potential infringement — as common as breathing.[92] Therefore, in the words of Lessig, "a law that triggers federal regulation of copying is a law that regulates too far."[93]

(ii) A History of Anticompetitive Legal Action

I suspect that major record companies and the RIAA oppose a secondary market for used digital works because it will directly compete with and cannibalize revenue from the primary market for new music. Controlling 89% of the market in 2012,[94] the "big three" labels — Universal, Sony, and Warner — are slow moving

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87 David Bollier, "Chapter 5: Intellectual property in the digital age" in *Key Issues in the Arts and Entertainment Industry* (Oxford: Goodfellows Publishers Ltd, 2011).

88 While HMV has seen a considerable resurgence since it entered administration in January 2013, it is still only half the size it used to be. See Zoe Wood, "Move over Amason, HMV is getting people back in stores", *ShortCutsBlog* (1 September 2014) online: The Guardian <http://www.theguardian.com/business/shortcuts/2014/sep/01/hmv-stores-overtake-amazon-uk-biggest-music-dvd-retailer>.

89 Digital Music in Figures (March 2013), online: IFPI <http://www.ifpi.org/facts-and-stats.php>.

90 *Ibid.*

91 Wong, *supra* 8 at 749.

92 Lawrence Lessig, *Remix: Making Art and Commerce Thrive in the Hybrid Economy* (London: Bloomsbury Academic, 2008) at 269.

93 *Ibid.*

94 "The Nielsen Company & Billboard's 2012 Music Industry Report", *Business Wire* (4 January 2014) online: Business Wire

heavyweights. They have a hard time subduing their lean, quick, and responsive competitors operating in the secondary market. But instead of developing innovative business models that complement the digital landscape, incumbent corporate giants like Capitol Records have sought to use the legal system to limit competition from the likes of ReDigi. The current battle over a digital first sale doctrine is simply the latest iteration of using legal force to manage consumer behaviour.

Serra claims that copyright owners are justifiably wary of an online service that facilitates file sharing beyond their reach.[95] The early 2000s saw the beginning of a music piracy epidemic. In response, eighteen major record companies, all members of the RIAA, commenced what would become a landmark legal battle against P2P file sharing application Napster. The court in *A&M Records v. Napster Inc.* found Napster liable for contributory and vicarious copyright infringement.[96] Users logged on to the Napster network were able to search for and download MP3 files directly from the computers of other users. The uploading and downloading of files were considered unauthorized reproductions, and therefore constituted direct copyright infringement. The Ninth Circuit Court of Appeal in turn found Napster to be contributorily liable because it had reason to know that its service was used for infringing purposes. Napster also incurred liability for vicarious copyright infringement because there was evidence that it could and sometimes did police its services; there was also a reasonable likelihood that it had a direct financial interest in the infringing activity.[97]

Litigation against the millions of Napster users would have been, at the very least, largely inefficient. Hence, it appears the plaintiffs' litigation was intended to shut down the Napster service in an effort to plug the piracy hole. The record industry was seemingly victorious as Napster filed for bankruptcy in 2002.[98] But then followed a stream of similar P2P services such as Grokster, KaZaA and Limewire. And the litigation continued, with varying degrees of success. In *Metro-Goldwyn-Mayer Studios Inc. v. Grokster Ltd.*, the defendants were not liable for offering P2P software similar to that of Napster.[99] Just as in the *Sony* case, Grokster's software had non-infringing use that could not warrant liability for contributory infringement. Also, it could not be proved that it had constructive knowledge of infringement by its users. Grokster also avoided liability for vicarious infringement since it had no ability to supervise its users' infringing activities. Presently,

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<http://www.businesswire.com/news/home/20130104005149/en/Nielsen-Company-Billboard's-2012-Music-Industry-Report#.UzNKN1zKBuY>.

95 Serra, *supra* note 79.

96 *A&M Record Inc. v. Napster Inc.*, 239 F.3d 1004 (9th Circ, 2001).

97 *Ibid.*

98 Benny Evangelista, "Napster runs out of lives — judge rules against sale", *San Francisco Chronicle* (4 September 2001) online: SFGate <http://www.sfgate.com/business/article/Napster-runs-out-of-lives-judge-rules-against-2774278.php>.

99 See *MGM Studios Inc. v. Grokster Ltd.*, 545 U.S. 913, 125 S Ct 2764.

legal scrutiny has shifted to BitTorrent search engines. In 2013, popular torrent site isoHunt shut down as part of a settlement agreement with the MPAA.[100]

The copy and distribution capabilities of the Internet are a threat to recording industry's monopoly over these rights. It has and continues to use copyright law in an effort to fight the forces of technology. One particular *amicus curiae* brief[101] in the *Napster* case illustrates this point well. The consortium of eighteen law professors claimed that the court's ruling in *Napster* would ban a new technology in order to protect the existing business models of record companies.[102] Invoking copyright in this way does not promote innovation, but stifles it.[103] Instead of expanding knowledge or stimulating competition, Stafford's "Music in the Digital Age" article claims that the recording industry has used copyright law to artificially limit the circulation of creative works.[104]

(iii) Failure to Embrace the New Sharing Economy

The rise of the sharing economy is outpacing the recording industry's ability to enforce its exclusive ownership rights over content. Bollier defines the "sharing economy" as one where self-organized communities generate and manage their own "commons" of content.[105] The industry has paid dearly for its insistence on "closed" business models that seek to manage consumer behaviour.[106] The $15.1 billion earned in 2013 is less than half of what the industry pulled in over a decade ago.[107] And the RIAA claims that global music piracy causes $12.5 billion of economic loss every year.[108] In his book *Remix*, Lessig comments: "A decade of fighting P2P file sharing has neither stopped illegal sharing nor found a way to make sure artists are compensated for unauthorized sharing. [The strategy] has failed to advance the goal of copyright."[109]

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100 Ted Johnson, "isoHunt to Shut Down as Part of Settlement With Studios" *Variety* (17 October 2013), online: Variety <http://variety.com/2013/biz/news/isohunt-to-shut-down-as-part-of-settlement-with-studios-1200734509/.

101 Consortium of 18 Copyright Law Professors, Brief Amicus Curiae of Copyright Law Professors in Support of Reversal (August 200) in *A&M Record Inc. v. Napster Inc.*, *supra* note 97.

102 *Ibid.*

103 *Ibid.*

104 Sadie A Stafford, "Music in a Digital Age: The Emergence of Digital Music and Its Repercussions on the Music Industry" (2010) 1 *The Elon Journal of Undergraduate Research in Communications* 2.

105 Bollier, *supra* note 88.

106 Stafford, *supra* note 105.

107 Eric Pfanner, "Music Industry Sales Rise, and Digital Revenue Gets the Credit", *The New York Times* (26 February 2013) online: The New York Times <http://www.nytimes.com/2013/02/27/technology/music-industry-records-first-revenue-increase-since-1999.html?_r=0>.

108 For Students Doing Reports (March 2013) online: RIAA <http://www.riaa.com/faq.php>.

109 Lessig, *Remix*, *supra* note 93 at 271.

Perhaps it is time for the recording industry to accept defeat. Stretching the boundaries of copyright law may have won a battle or two, but the industry is losing the war. The solution to the industry's woes lies in adopting innovative distribution models that reflect the digital age. And that necessarily translates into allowing a digital secondary market to exist.

(c) Policy Objectives of a Digital Secondary Market

A secondary market for pre-owned digital works stands to promote innovation in content industries. Lower prices increase affordability and prevent consumer lock-in. Also, permitting resale ensures that content remains in the public domain. Ultimately, wider dissemination of works through the secondary market furthers the goal of copyright.

(i) Promote Innovation

A digital secondary market creates the competition that spurs innovation. The primary market for new music, which is controlled by the "big three," faces the stiffest competition. Legal wrangling has not proven to be viable business strategy. The music industry has been fundamentally altered over the past 15 years. Now may be the appropriate time for major record companies to look from within for some ingenuity. This will be no easy task for an incumbent industry that has large fixed investments in old world business models.[110] One possible response from copyright owners can be to add value to new editions in the form of bonus features or additional content.[111] There is also potential for innovative new business models to grow out of competition between secondary market providers.[112]

(ii) Increased Affordability

Pre-owned digital music is less expensive than new music. Currently, individual songs on ReDigi sell for $0.59 to $0.79, compared to $0.99 to $1.29 on iTunes. This can translate into savings of over 50% for consumers. While the passage time may not degrade the quality of used digital music, it is still less valuable to consumers than new releases. By the time it is available on the secondary market, the popularity of a song, album, or artist may have faded significantly.[113] Increased affordability benefits consumers in four ways. Firstly, consumers may be more inclined to purchase new types of music they never would have before. Secondly, resale of unwanted music generates more money for consumers to spend on the primary market.[114] Thirdly, competition between multiple pre-owned digital retailers ensures that prices remain low. Lastly, consumers will be gaining ownership over the music files they purchase. Ownership allows them to resell further or to create derivative works, which is not possible with streaming services such as Spotify, Rdio, or Songza.

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110 Bollier, *supra* note 88.

111 Hess, *supra* note 54 at 1774.

112 *Ibid.*

113 *Supra* note 53 at 1777.

114 *Supra* note 35.

(iii) Prevent Consumer Lock-in

Consumers may become "locked in" to a current technology when the cost of switching to a newer and more desirable platform is too high.[115] For example, imagine the frustration that consumers felt when, only after compiling a massive DVD library, the far superior Blu-ray Disc entered the market. This of course is the price of innovation. But for over 100 years, the first sale doctrine has allowed consumers to allocate proceeds from reselling content housed on old technology towards converting to a new platform. Therefore, the secondary market should continue to exist so consumers are able to adopt the new technologies that are inevitable in the digital age.

(iv) Increased Availability

The right to resell ensures that content will remain available to the public. A copyright owner may decide to cease distribution of their work to stimulate demand, because distribution is too expensive, or out of personal embarrassment, or political pressure.[116] The copyright owner has the right to do this. But after the first sale, they no longer have control over copies of their work already floating in the public sphere.

(d) A Technology Neutral Solution

Technology neutrality is the principle that the law should apply equally between traditional and more advanced forms of technology.[117] This is founded on the broader concept of media neutrality — that a copyright owner should enjoy the same protection in whatever form his/her work takes.[118] According to Lessig's book *Code*, "This way of reading . . . insists that the important political decisions have already been made and all that is required is a kind of technical adjustment. It aims to keep the piano in tune as it is moved from one concert hall to another."[119] In its role as lawmaker, Congress may be better equipped to wrestle with the important policy considerations surrounding a digital first sale doctrine.

I recommend that Congress add technology neutral language to section 109 so that the first sale doctrine can apply to digital resales. Doing so is optimal because, firstly, it prevents technological change from tainting the original purpose of the provision, i.e. preventing copyright from encroaching on a consumer's right to alienate copies that they legally own. In 1908, the *Bobbs-Merrill* court could not foresee the idiosyncratic challenges that digital media and the Internet now present. It could not foresee how easy it is today to widely distribute copies of works that never degrade. Most importantly, it could not foresee how these innovations have impacted the primary market for copyright owners. And perhaps no court can.

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115 *Ibid* at 1978.

116 Hess, *supra* note 54 at 1779.

117 *Entertainment Software Association v. Society of Composers, Authors and Music Publishers of Canada*, *supra* note 73.

118 Tsai, *supra* note 25.

119 Lawrence Lessig, *Code*, v2.0 (New York: Basic Books, 2006) at 166.

Therefore, the language of the provision must be adjusted to ensure that innovators introducing new technology into the market are not unfairly prejudiced.

Secondly, technology neutrality is a major principle and furthers the goal of the U.S. *Copyright Act*. The provision on the subsistence of copyright and the definition of "copy" are proof that the *Act* was drafted to be technologically neutral. Section 102(a) states that "Copyright subsists . . . in original works of authorship fixed in any tangible medium of expression, *now known or later developed*, from which they can be perceived."[120] The definition of "copy" also contains the "now known or later developed" language.[121] This phrasing is indicative of Congress' intent to stay within its constitutional grant of authority by not expanding or contracting the scope of copyright in the face of new technology. In this way, technology neutrality continues to balance the rights of copyright owners and users. Sustaining this balance is key to encouraging the creation of more works, and thus, carrying out the purpose of copyright law.[122]

According to Francis Gurry, the Director General of the World Intellectual Property Organization, technology neutrality is needed to fend off copyright owners who wish to preserve business models established under obsolete or moribund technologies.[123] Nowhere is this truer than in the cornerstone case of *Sony Corp. of America v. Universal Studios Inc.*[124] The court prevents the motion picture industry from using its copyright to stunt the distribution of an innovative consumer product, video tape recorders. Sony was not liable for its distribution of the VTRs because time shifting for private home viewing, and not for commercial purposes, was deemed fair use. Ultimately, the court upheld the principle of technology neutrality and prevented the scope of copyright form stretching too far.

Canadian copyright law has seen a seismic shift towards technology neutrality in what is commonly referred to as the Copyright Pentalogy of 2012. *ESA v. SOCAN*[125] is a bedrock case where the Supreme Court of Canada takes a "functional equivalency" approach[126] in determining that an in-store purchase of a video game is no different than a downloaded purchase. The effect is that copyright owners of musical works contained in the games would not be entitled to an additional royalty for downloaded purchases. The court finds that treating the two differently would violate the principle of technology neutrality.[127]

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120 *Copyright Act*, *supra* note 31 at §102(a).

121 *Copyright Act*, *supra* note 31 at §101.

122 Tsai, *supra* note 25.

123 Francis Gurry, "The Future of Copyright" (Lecture delivered at the Blue Sky Conference, Queensland University of Technology, 25 February 2011) online: World Intellectual Property Organization <http://www.wipo.int/about-wipo/en/dgo/speeches/dg_blueskyconf_11.html>.

124 *Sony Corp. of America v. Universal City Studios Inc.*, 78 L.Ed.2d 574, 464 U.S. 417 (U.S. Sup. Ct., 1984).

125 *Public Performance of Sound Recordings, Re*, *supra* note 73.

126 Kevin Sui, "Technological Neutrality: Toward Copyright Convergence in a Digital Age" (2013) 71(2) UT Fac L Rev 76 at 90-91.

127 *Public Performance of Sound Recordings, Re*, *supra* note 73.

A legislative amendment that is technology neutral is only one part of the broader solution. While *Sony* is a champion case for technology neutrality, one must keep in mind that users of a digital secondary market are engaging in commercial activity, and not personal home use. Also, the inexpensive transmission of information across the globe via the Internet requires more to protect copyright owners. Hence, Section VI of this article proposes compensatory and technological solutions to the unique challenges that digital resale presents.

VI. TAKING SHAPE: WHAT A DIGITAL SECONDARY MARKET COULD LOOK LIKE

Thus far, I have recommended that section 109 adopt technological neutrality in an effort to continue the existence of the first sale doctrine and the secondary market in a digital age. But where do we go from there? Balancing the interests of copyright owners and the public leads to the inevitable conclusion that an unfettered first sale doctrine is not desirable. Therefore, the digital secondary market must incorporate a compensation scheme for copyright owners and appropriate technology that enables further dissemination of works. I recommend a statutory digital resale royalty and FADT.

(a) Models for Compensating Copyright Owners

An unfettered digital secondary market will cannibalize revenue flowing to copyright owners from the primary market. In his book *Free Culture*, Lessig recommends finding ways to compensate authors during the transition between "20th century models for doing business and 21st century technologies."[128] A resale royalty or retailer-based compensation scheme will bridge the shortfall in compensation from a copyright owner's "first sale." Just compensation will incentivize creators to continue creating, thus fulfilling the purpose of copyright.

(i) Resale Royalty

In his article "Rebalancing at Resale," Serra proposes a statutory digital resale royalty. He envisions a scheme where a portion of the resale proceeds from each individual copy flows back to the copyright owner.[129] A new or existing collective rights organization (CRO) would collect royalties and an accounting of works sold from digital resellers, e.g. ReDigi. The CRO would then remit royalty payments to copyright owners after matching what was sold with a registry of copyright owners.[130]

Serra presents a pragmatic solution that furthers the objectives of copyright. A single CRO administering all resale royalties may be the most efficient way to compensate authors if and when several digital resellers emerge. The success of SoundExchange illustrates the potential for a digital resale CRO. As an administra-

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128 Lawrence Lessig, *Free Culture: How Big Media Uses Technology and the Law to Lock Down Culture and Control Creativity* (New York: The Penguin Press, 2004) at 299 [Lessig, *Free Culture*].

129 Serra, *supra* note 79.

130 *Ibid.*

tor of statutory licenses for digital performance rights, SoundExchange collected and distributed royalties of approximately $500 million in 2012.[131] Entertainment lawyer and Wide Mouth Mason co-founder Safwan Javed states that while the existence of another CRO may create confusions for artists, additional revenue streams may persuade record companies (who partially or wholly own copyright in sound recordings) to finally jump on board with digital resellers.[132]

(ii) Artist Compensation Administered by Each Second-hand Retailer

Requiring second-hand digital retailers to allocate a portion of resale proceeds to copyright owners is another route to just compensation in light of losses on the primary market. ReDigi's Artist Syndication Program allows artists to profit from the resale of their music for the first time ever. ReDigi allocates 20% of a song's sale price to an artist every time the track resells. The process for artists is simple — once their application to the program is approved, they are paid quarterly.[133] A digital reseller may prefer being able to control its own processes in carrying out an artist compensation scheme on its own. However, artists may face difficulty and confusion in seeking out funds owed to them if there are number of digital resellers with their own unique compensation scheme.

(b) Selecting the Best Technological Architecture

The technology that facilitates a digital secondary market reflects a decision as to how far the monopoly over copyright should stretch. I suggest that FADT is the best alternative to carry out digital resales because it is functionally equivalent to a physical transfer. Proprietary software that controls both the primary and secondary market is also workable, but may lead to consumer lock-in. DRM and aging file systems may place a brake on unlawful distribution, but they both do so in a way that is counter-productive to the purpose of copyright.

(i) Forward-and-Delete Technology

FADT provides a convenient and efficient method for file transfer. The process produces a new copy that exits simultaneously with the original, but only for a slight moment in time. FADT is functionally equivalent to a physical transfer because only one copy exists, and it is not accessible by the transferor. ReDigi takes FADT one step further with its "atomic transaction" that transfers data bit by bit. The sophisticated process ensures that no data exists simultaneously in two different places. In spite of endorsement from the Section 104 Report, courts have been resistant towards FADT.

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131 Angus M. MacDonald, "SoundExchange Collected Over Half-Billion in 2012; Almost Half From Pandora", *Audio4Cast* (14 April 2013) online: Audio4cast <http://audio4cast.com/2013/04/04/soundexchange-collected-over-half-billion-in-2012-almost-half-from-pandora/>.

132 Interview of Safwan Javed, Associate at Taylor Klein Oballa LLP (18 March 2014).

133 "Artist Syndication Program", *supra* note 13.

(ii) Proprietary Software

Proprietary software that offers access to the primary and secondary market may avoid the pitfall of creating additional infringing copies. This is the methodology contained in Apple's patent application for "managing access to digital content items."[134] The retailer that sold the digital content, i.e. iTunes, will store data establishing which user has access to it. When the original owner resells digital content, the retailer will change the access rights such that only the buyer, and not the seller, can access it.[135] This methodology, while simple and convenient, can ultimately lead to consumer lock-in. Apple's strategy may be to corner consumers into buying Apple-based platforms (iPads, iPhones, iPods, MacBooks) that support only iTunes content.[136]

(iii) Digital Rights Management

Digital rights management (DRM) is the use of technology to control access to copyrighted works.[137] In the digital secondary market, DRM can restrict access to content contained in a digital file after it has been resold a maximum number of times. Alternatively, a password that grants access can cease to be passed on to a subsequent transferee. This is exactly what Amazon's "secondary market for digital objects" patent envisions. The patent explains a process that maintains scarcity: "When a digital object exceeds a threshold number of . . . downloads, the ability to move may be deemed impermissible and suspended or terminated."[138]

DRM is not the right methodology for carrying out a pre-owned digital market. It has been fiercely criticized for inappropriately expanding the scope of copyright.[139] DRM allows copyright owners to control what a consumer can do with a copy after they have gained property ownership over it. It was so unpopular among consumers that, after CEO Steve Jobs pleaded with record companies, iTunes stopped selling music wrapped in DRM in 2009.[140] By restricting access to content, DRM may lock up non-copyrightable elements of a work.[141] Also, DRM re-

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134 Patent, "Managing Acess", supra note 15.

135 *Ibid.*

136 Jared Newman, "Apple Patents a System for Second-Hand iTunes Sales", *Time Magazine* (8 March 2013) online: Time <http://techland.time.com/2013/03/08/apple-patents-a-system-for-second-hand-itunes-sales/>.

137 Julia Layton, "How Digital Rights Management Works" (March 2013) *How Stuff Works* online: How Stuff Works <http://computer.howstuffworks.com/drm1.htm>.

138 Patent, "Managing Acess", supra note 15.

139 Hagen points to various critiques of Technological Protection Measures (the equivalent, in Canadian copyright law, of Digital Rights Management). He argues that TPMs (and rules against their anti-circumvention) are contrary to the rule of law. See Gregory R Hagen "Technological Neutrality in Canadian Copyright Law" in Michael Geist, ed, *The Copyright Pentalogy: How the Supreme Court of Canada Shook the Foundations of Canadian Copyright Law* (Ottawa: University of Ottawa Press, 2013) at 324.

140 Capobianco, *supra* note 51 at 410.

141 Stephen M McJohn, *Copyright: examples and explanations* (New York: Wolters Kluwer Law & Business, 2012).

stricts fair use — adapting copyrighted work into a new product that takes on a "transformative" purpose — which ultimately hampers innovation.[142] A savvy consumer who removes DRM (or "picks a digital lock") is liable under section 1201 of the US *Copyright Act*.[143] Lessig pointedly states, "This is how code becomes law." Undermining technological controls violates the law, even if the subject it regulates is beyond the reach of the law.[144] Ultimately, DRM is contrary to the purpose copyright because it actively hinders the dissemination of content and does nothing to compensate copyright owners.

(iv) Degradation via Aging File Systems

Non-degradability makes a digital copy on the secondary market just as desirable as a new copy on the primary market. In an effort to align digital files with their physical counterparts, Hess' article "Code-ifying Copyright" recommends introducing degrading qualities into digital file systems.[145] IBM filed a patent for "Aging File Systems" in 2011. This system creates an aged version of a file, according to preset aging parameters, that automatically replaces the original file. File aging serves users who wish to preserve digital files but retain storage space when the aged files are destroyed after a defined time period.[146] Hess suggests that an aging file system can degrade the quality of a digital file each time a copy is created. This is the digital equivalent to photocopying a photocopy of a photocopy. He argues that this may be the "most effective balance of public access and control for creative incentive in digital property."[147]

I cannot agree with Hess' proposal for the same reason I cannot agree with implementing DRM. Introducing degradation into digital files is regressive and counterproductive. By reverting back to the limitations of the past, it effectively undermines the technological strides our society has made. It is akin to placing an anti-preservative that accelerates the spoilage of food. Much like DRM, this bizarre scheme places an artificial technological brake on further dissemination of copyrighted work — all in an effort to extend the reach of a copyright owner's monopoly. Such a practice is a slight to the promotion of science and the useful arts and should therefore never be adopted in this context.

VII. CONCLUSION

In closing, lawmakers in the U.S. should not allow this article to be the swan song of the first sale doctrine. The prevalence of creative works in digital form has caused a shift towards a sharing economy. Technological neutrality in the *Copyright Act* can permit the continued operation of a first sale doctrine in the digital world. Wider dissemination of creative works through the digital secondary market will satisfy the goal of copyright, but it must be crafted in a way that maintains the

142 *Ibid.*

143 *Copyright Act*, *supra* note 31 at §1201(a)(1)(A).

144 Lessig, *Free Culture*, *supra* note 129 at 160.

145 Hess, *supra* note 34 at 2007.

146 "Aging File System," US Patent No 20110282838 (application filed May 14, 2010).

147 Hess, *supra* note 35 at 2009.

balance between the rights of copyright owners and users: (1) technology must prevent a seller from retaining a disposed copy of a work; and (2) digital resellers must compensate copyright owners for the resale of their work.

The court in *ReDigi* forcefully rejected the application of the first sale doctrine to the transmission of digital copies. That decision was based on a rigid statutory interpretation that ignored FADT's functional equivalence to physical transfers. It also ignored the doctrine's purpose — to prevent the scope of copyright from controlling consumer behaviour. The court's inability to look beyond the technicalities of a century old doctrine indicates that Congress may be better equipped to solve the policy quagmire that a digital first sale presents.

Physical distribution provided a natural brake on the speed of content distribution, but the Internet has effectively broken the levee and added a fuel injector, making digital copies that never degrade and that are non-rivalrous and non-excludable. Access to cheaper digital music that retains the quality of new music will necessarily cannibalize sales from the primary market. This means less money flowing to a recording industry still staggering from a piracy pandemic. Record companies' use of copyright law to battle a digital secondary market is futile in the face of a sharing economy. A more fruitful solution lies in adopting innovative business models for the 21st century. Overall, digital resale stands to create competition and innovation. Consumers will benefit from more options, lower prices, and the ability to switch to newer technologies. These policy objectives are worth fighting for.

Ultimately, a digital secondary market must balance the interest of public dissemination of creative works and just compensation for copyright owners. Hence, I recommend a digital resale royalty administered by a CRO. Also, FADT similar to ReDigi's "atomic transaction" is currently the best architectural solution because it is efficient and will avoid consumer lock-in. DRM and an "aging filing system" should not be adopted because they are regressive technologies that place an artificial brake on the dissemination of copyrighted works.

At the beginning of this article, I interpreted Rachmaninov's quote to mean that music is eternal. Over time, society figured that through copyright, individuals could extract value from this endless stream of expression. Limited time property ownership over one's work was meant to incentivize more creation, but it also created a kind of product life cycle that placed an expiry date on works. The emergence of the first sale doctrine opened the pearly gates for creative content to enter into the afterlife. A secondary marketplace that can live on regardless of the technology of the day allows for the discovery and rediscovery of creative works. It turns out that we might get by in keeping music eternal after all, with a little help from our friend, the first sale doctrine.