

Legal Update from Brian Flagler

February 2011



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Digital Content: Tools Available to Publishers to Control Downstream Use

Sales data from the recent Christmas season confirms that the market for digital books is growing at an unprecedented pace. As reported in PW, some commentators at Digital Book World last week predicted that publisher revenues would reach 50% digital / 50% print by 2014. (See PW article [here](#).) The market is calling even reluctant publishers to evaluate their digital strategy, and fast.

When deciding whether and how to distribute its books in digital format, publishers should understand how the digital edition will affect sales of the print edition and other markets for the book. Equally as important, given the growing size of the digital market for books, is to understand how the means of digital distribution affects the publisher's ability to control downstream uses of that digital file and therefore may affect the market for the *digital* edition of the book. This Legal Update addresses authorized and unauthorized uses of digital books and the publisher's ability to control downstream use. I address three issues, in turn: digital piracy, authorized ebook sharing, and unauthorized resale of digital books.

DIGITAL PIRACY

Although commentators and studies debate the effect of digital piracy on the market for a book, these studies consistently note the growth of online file-sharing and other forms of digital infringement. An ECPA coalition's nearly seven-year effort to stop a website in the UK from infringing hundreds of copyrighted works highlights the difficulty and expense of relying upon litigation to stop online piracy [See ECPA press release [here](#)]. Two federal initiatives are currently seeking to address this challenge:

Senator Patrick Leahy introduced legislation last year intended to provide copyright holders with an efficient and effective alternative to litigation to shut down infringing websites. The Combating Online Infringement and Counterfeits Act (COICA) was proposed in September of last year. The legislation would provide the Department of Justice with an expedited process to cut off rogue websites that are selling counterfeit goods and/or pirating copyrighted materials. The bill passed the Senate Judiciary Committee 19-0, but failed to reach the Senate floor before Congress adjourned in 2010. The "copyleft" community has developed a strong grassroots attack on the bill, claiming that it represents Internet censorship. The bill is expected to be reintroduced

in 2011.

As ECPA reported last year, the [Internet Policy Task Force](#) created by the Department of Commerce issued a notice of inquiry in October of last year requesting comments regarding the challenges faced by copyright owners in addressing online infringement. The Association of American Publishers prepared [comments](#) on behalf of the book publishing industry after seeking input from ECPA and others. Those comments include a description of ECPA's lengthy but ultimately successful effort to shut down the Biblecentre site, as well as an account of AAP's lawsuit against Rapidshare in Germany. The comments also provide a helpful assessment of the state of digital piracy and the legislative tools needed to help publishers combat piracy. The Department of Commerce is currently evaluating these and other comments and plans to issue a report and recommendations likely this spring.

ECPA will continue to track and support initiatives which are intended to provide publishers with more cost-effective and efficient tools to stop online infringement of copyrighted works.

AUTHORIZED EBOOK SHARING

In late December, Amazon launched its Kindle lending program. This program allows users to lend titles to others to read for a limited time. While the book is loaned to another user, the book is not available to the original user. B&N's Nook has included this functionality for some time, and B&N originally included this right in its agreements with publishers. In similar fashion, Amazon indicates that it only makes those titles available for lending which the publisher has authorized Amazon to include in the lending program. (Amazon's lending program is explained [here](#).)

Within days of Amazon launching its ebook lending program, a [Facebook page](#) appeared to facilitate connecting Kindle users seeking to lend an ebook with those seeking to borrow that ebook.

And, shortly thereafter, the creator of the Facebook page announced she was forming a business to profit from Kindle ebook sharing [CNET News report: [Start-up hopes to profit from Kindle lending](#)].

These authorized ebook lending programs enable readers to "lend" a recommended book to a friend in much the same way that readers lend their copy of a physical book. The theory is that enabling this activity for ebooks will increase sales. Consumers expect to be able to lend ebooks to their friends, so setting up a controlled environment for this lending meets a market desire rather than pushing consumers to find an unauthorized means to share the work.

And, importantly, B & N and Amazon have at this point committed to respect the publisher's right to decide which books to make available for lending (although Amazon restricts its 70% royalty option to titles available for lending and requires that any title available for lending on the Nook is included in the Kindle lending program).

How might this activity affect consumer expectations over the long term? In the music space, consumers became frustrated with digital rights management (DRM) technology, and music publishers eventually capitulated (in large part) to allow the DRM-free music the market desired. Will authorized ebook lending, over time, create pressure on publishers to allow lending without technological restrictions?

UNAUTHORIZED RESALE OF EBOOKS—THE “USED EBOOK STORE”

In light of the common practice of reselling used print books, it is not surprising that some voices on the Internet suggest that consumers should be able to resell their “used” ebooks. However, as the Copyright Office noted in a [report](#) 10 years ago:

“Physical copies of works degrade with time and use, making used copies less desirable than new ones. Digital information does not degrade, and can be reproduced perfectly on a recipient’s computer. The “used” copy is just as desirable as...a new copy of the same work... The need to transport physical copies of works, which acts as a natural brake on the effect of resales on the copyright owner’s market, no longer exists in the realm of digital transmissions. The ability of such “used” copies to compete for market share with new copies is thus far greater in the digital world.” (1)

In my opinion, the development of “used ebook stores” could represent a significant threat to revenue from “new” ebook sales. Fortunately, there are currently legal barriers to the resale of ebooks on the Internet. However, there is pressure to soften or remove those barriers. Publishers would be wise to remain vigilant by understanding and preserving these barriers and applying them to their works.

The “first sale doctrine” as reflected in Section 109 of the Copyright Act enables the owner of a particular copy of a work to sell that copy, provided that the copy was lawfully made. This provision allows the owner of a copy of a printed book to sell that copy to another person or a used book store. The Electronic Frontier Federation and other groups have pressured Congress for years to revise the Copyright Act to create a new “digital first sale doctrine” which would allow consumers to resell their digital content. As confirmed in the Copyright Office’s 2001 report, the existing first sale doctrine does not allow the owner of a digital copy to resell digital content to the extent that such a sale involves reproduction of the digital file and transmission of the digital copy to another computer:

Section 109 provides no defense to infringements of the reproduction right. Therefore, when the owner of a lawful copy of a copyrighted

work digitally transmits that work in a way that exercises the reproduction right without authorization, section 109 does not provide a defense to infringement. (2)

As long as this interpretation of the first sale doctrine holds in the courts, and Congress does not relent to pressure to amend Section 109 of the Copyright Act to allow such digital reproduction and transmission under the first sale doctrine, the threat of a copyright infringement claim may prevent the development of online used ebook stores.

However, to be prepared for the prospect that this legal doctrine could change with time, I suggest that publishers which desire to control the downstream resale of their ebooks consider a “belt and suspenders” approach to maintain this control. Many criticize DRM as ineffective against hackers and cumbersome for consumers. But applying DRM to all of your ebooks may preserve a separate legal right to prevent the downstream resale of your ebooks under the anticircumvention provisions of the Digital Millennium Copyright Act (DMCA).

The DMCA’s “anticircumvention” provisions prohibit circumventing, or “hacking,” a technology, such as DRM, which controls access to a copyrighted work. Presumably, an online used ebook store would have to sell ebooks unprotected by DRM in order for them to be downloaded and read by the average ebook reader. If a publisher imposes DRM on all of its ebooks, and they appear on a used ebook store free of DRM, it is evident that the DRM in its ebooks was “circumvented” (e.g. hacked) to make them available through the store. Therefore, via the DMCA, publishers potentially create for themselves an additional means to control downstream resale of their ebooks by imposing DRM on the ebooks that they distribute into the marketplace.

A third option is potentially available to publishers to control the downstream resale of their ebooks, but it is a newly developing legal doctrine and comes with certain challenges. The Ninth Circuit Court of Appeals ruled in the *Vernor v. Autodesk* case in September of last year that a software developer may distribute its software under certain written restrictions which enable the developer to retain title to each copy sold to its customers. By “licensing” these copies to customers instead of “selling” the copies, the customer does not own the copy and therefore the first sale doctrine does not enable the customer to resell it. In the *Vernor v. Autodesk* case, the software developer was able to prohibit a downstream purchaser of copies of its software from reselling them on eBay.

Publishers typically sell their ebooks under a “distribution model” and view ebook revenue as sales revenue, not licensing revenue. There are various valid reasons to continue this approach. However, the *Vernor* case potentially provides publishers with the option of licensing rather than selling ebooks, which could serve as a third means to maintain control over the downstream use and resale of digital content.

CONCLUSION

Publishers are well acquainted with the established rules applicable to the distribution of printed books. The rules for distribution of digital content are, in comparison, emerging and changing at lightning speed. Understanding the legal landscape for digital content is increasingly important as publisher revenue shifts from print to digital.

- (1) *DMCA Section 104 Report*, U.S. Copyright Office, August 2001, p. 82-83
- (2) *Id* at 80.



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