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Beyond Trade: Global Digital Exhaustion in International Economic Regulation

P. SEAN MORRIS

INTRODUCTION

This Article investigates the nature of digital exhaustion and argues that a regime for digital exhaustion should become global in nature and enforced through international dispute settlement systems, such as that of the World Trade Organization (WTO). This would reflect the global nature of e-commerce and create a harmonized international copyright regime for the exhaustion of digital products. Courts across the globe have been battling with how to handle these questions. While such questions may be the domain of national copyright laws, the problem with exhaustion of digital goods has been extended beyond the scope of such laws. For example, in UsedSoft GmbH v. Oracle International Corporation, the Court of Justice of the European Union (CJEU) held that the exhaustion of digital goods extended to the resale of used software that is downloaded from the Internet as long as the copyright holder has previously authorized the actual download. This ruling gives consumers the right to resell legally downloaded software in Europe without any authorization from the copyright holder. The principle of exhaustion, as applied in this decision, is regional exhaustion. However, the existence of international copyright treaties,

3. Id. ¶ 84.

In the case of regional exhaustion, the first sale of the IP protected product by the IP owner or with his consent exhausts any IP rights over these given products not only domestically, but within the whole region, and parallel imports within the region can no longer be opposed based on the IP right.
such as the World Intellectual Property Organization Copyright Treaty (WIPO) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement), should be seen as vehicles that can create a global exhaustion regime for digital goods. The question remains—is this possible, and if so, should the current non-existent international regime of exhaustion remain intact?

I. BACKGROUND

We live in an era where global trade has transcended borders and goods are now sold freely over the Internet. Some types of goods sold on the Internet are physical products, such as a hard copy book. However, the same version of the hard copy book can also be sold in a digital format. Trade in the digital format of goods, such as e-books, software, music, and other digital items, exposes the flaws in the nature of copyright law. One such flaw is the nature of exhaustion, or the doctrine of “first-sale,” as it is known in some parts of the world. Exhaustion occurs when an intellectual property owner places a good on the market and, after its sale, is prevented from restricting the purchaser from reselling the item. With recent decisions such as Kirtsaeng v. John Wiley & Sons, Inc. in the United States, and UsedSoft GmbH v. Oracle International Corp. in Europe, there seems to be an emerging trend to fully develop the principle in international law. At the very least, this Article will attempt to make that argument. Even if there was a provision in international treaties that recognized the principle of exhaustion, there are more pressing problems that such a principle would encounter. First is the underlying question of whether the intellectual property rights in digital goods that are sold over the Internet can be exhausted. In other words, does exhaustion even apply

7. See id. § 109(a).
to digital products? Second, if exhaustion does apply, does trade liberalization and e-commerce facilitate global digital exhaustion? Third, how does copyright law apply in the area of digital exhaustion? These three questions are now at the forefront of e-commerce and global trade.

In some respects, the current international copyright regulatory system is flawed and should be replaced with a “super-TRIPS” like agreement.\textsuperscript{10} This would remedy the issues that are brought about by trade in digital goods and would clarify how to determine when such goods are exhausted. Although the Anti-Counterfeiting Trade Agreement (ACTA) has been on a path to provide effective protection and enforcement for goods in the digital environment,\textsuperscript{11} forces stronger than negotiating skills, such as protests, place the ACTA on permanent hold.\textsuperscript{12} In any case, this Article proposes that an alternative to the TRIPS Agreement and copyright regulation recognized in most nation states is preferred. But for the time being, this Article will concentrate mainly on digital goods and exhaustion. This Article focuses exclusively on digital exhaustion in the copyright context and argues that the current copyright laws of the nation states are juxtaposed between over-protection and under-creativity to the detriment of actors in international trade. The actors harmed include both large rights holders and less advanced countries to which copyrighted goods are often destined.

In recent times, there has been an emerging dissent in copyright literature that has posited views both for and against the copyright system.\textsuperscript{13} This Article suggests that copyright law should be reformed to


\textsuperscript{13} See Jessica Litman, DIGITAL COPYRIGHT 186 (Prometheus Books 2001) (arguing that the public should be engaged in new copyright laws and should “abandon the copyright law's traditional reliance on reproduction, and refashion our measure of unlawful use to better incorporate the public's understanding of the copyright bargain”); Giuseppe Mazzotti, EU DIGITAL COPYRIGHT LAW AND THE END-USER (Springer-Verlag 2008).
incorporate all views and produce a “super” copyright code that takes into account the realities of world trade, particularly the trade of digital goods. The current system of copyright protection, as embodied by national laws and international legal instruments, cannot afford to continue in its current state. Such systems were developed in an era that did not envision future realities, regardless of the various amendments to reflect growing differences. One such reality has been the emergence of the Internet, which has radically shifted the concept of trade to an even more borderless world. New business models continue to develop and consumers are gaining more rights in the copyright divide—shifting the balance away from the copyright holders. In this entire conundrum, the emerging issue of digital exhaustion of digital goods such as music, e-books, and satellite transmissions is raising new questions for copyright law.

Apart from the dissent in the copyright literature, it has also become obvious to the legislature that the copyright system is in deep turmoil and in need of reform. This turmoil has been evident in cases on both sides of the Atlantic, such as in UsedSoft in Europe, as well as in Kirtsaeng and Authors Guild v. Google Inc. in the United States. The
common ingredient among these cases is the exhaustion of goods sold over the Internet, whether physical goods or digital goods. For example, in *Kirtsaeng*, the United States Supreme Court embraced an international approach and held that the first sale doctrine of section 109(a) of the United States Copyright Act was more important than the owner's rights under section 602(a)(1). Thus, the Court held that “the ‘first sale' doctrine applies to copies of a copyrighted work lawfully made abroad.” This case attracted numerous interests, and the amount of amicus curiae briefs submitted from a wide cross section of the intellectual property world reflected the high stakes that the case presented. However, at the heart of the case was the issue of the copyright system and whether the present rules are too antiquated to meet the dynamics of the modern copyright world. To this end, a number of countries have been looking into possible reform of their copyright systems. Member states of the European Union (EU) have assessed copyright reform, even though those assessments have often been at opposite ends. This was evident in both France and the United Kingdom where the member states’ governments and copyright proponents advocated very different views. Specifically, one member state advocated a non-market approach, whereas the other supported copyright licensing. Both propositions are equally important. The French advocacy group wanted the copyright exhaustion doctrine to play a critical role in copyright management, while the United Kingdom preferred to establish a global copyright hub.

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21. Id. at 1355–56.
26. See Aigrain et al., supra note 23. But see Hooper & Lynch, supra note 25.
27. See Aigrain et al., * supra note 23, at 6; Hooper & Lynch, supra note 25, at 41.
II. THE FIRST SALE DOCTRINE IN INTERNATIONAL INTELLECTUAL PROPERTY LAW

Who really owns goods protected by intellectual property rights purchased over the Internet? Can a person located in the United States buy books at a significantly reduced price in Thailand, have the books shipped to the United States, and then sell them at a higher price for a profit? Where and when do goods purchased over the Internet fully meet the principle of first sale? Is there an overlap between exhaustion in physical books and electronic books? These are all important questions concerning the nature of exhaustion that courts are struggling to answer. But even if courts recognize that the exhaustion doctrine is territorial or regional, that does not answer a fundamental question: How do we, in the age of electronic commerce, facilitate an international regime for exhaustion? Can international economic actors, such as the WTO, establish a regime to facilitate global trade and the free movement of digital goods without intellectual property rights owners contesting such movement of goods? The answer should be a straightforward “yes” for the WTO. However, strong resistance for a global exhaustion regime in the WTO has left the world’s most influential economic actor at a crossroad.

Under the current international legal instrument for trade and intellectual property rights, the TRIPS Agreement, there is a notable resistance toward international exhaustion. For instance, Article 6 of the TRIPS Agreement states, “For the purposes of dispute settlement under this Agreement, subject to the provisions in Articles 3 [national treatment] and 4 [most-favoured-nation treatment], nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.” This language was reinforced in the Doha Declaration on the TRIPS Agreement and Public Health, where each WTO Member was “free to establish its own regime for [exhaustion] without challenge, subject to the MFN [most-favoured-nation] and national treatment provisions of Articles 3 and 4.” The problem with

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30. Id.
31. TRIPS Agreement, supra note 5, art. 6.
the TRIPS provision on exhaustion is that it creates an avenue for a double-pronged approach to international intellectual property law.\textsuperscript{33} Fundamentally, the exhaustion provision in the TRIPS Agreement “raises extremely complex legal and economic issues.”\textsuperscript{34} The TRIPS Agreement and the Internet have a similar history. Both emerged almost at the same time, however, what was not foreseen at the time by the negotiators of the TRIPS Agreement was that the little-noticed Internet, which was being used for inter-college communication and sending a “weird” form of communication known as e-mail, would eventually help shape international trade.\textsuperscript{35} Had the negotiators of the TRIPS Agreement considered the Internet and how it would affect international trade, perhaps a reasonable approach to the TRIPS exhaustion regime would have been established. There was also an opportunity to take these same considerations into account during the first amendment of the TRIPS Agreement at the Doha round of negotiations.\textsuperscript{36} However, these considerations were not pursued.\textsuperscript{37} Today, a substantial amount of international trade and commerce is now conducted via the Internet, which puts the doctrine of exhaustion into the spotlight. Even more, it pushes the doctrine of exhaustion closer to the WTO. The lack of an international exhaustion regime in the WTO allows rights holders to use their statutory obligations to dilute the competitive process of buying and selling goods across global borders.\textsuperscript{38} This is particularly true with regard to digital goods. If an international regime of exhaustion was fully embraced in the TRIPS Agreement, digital goods could flow across borders without resellers fearing prosecution. Currently, it is still questionable whether Article 6 of the TRIPS Agreement is limited to public health issues.\textsuperscript{39}

International economic law is an essential component of the modern system of public international law.\textsuperscript{40} It is the force of gravity

\textsuperscript{33} Morris, supra note 29, at 3–4.
\textsuperscript{34} Nuno Pires de Carvalho, The TRIPS Regime of Patent Rights, 173 (Kluwer Law Int’l 3d ed. 2010).
\textsuperscript{35} Morris, supra note 29, at 2.
\textsuperscript{37} See id.
\textsuperscript{38} See TRIPS Agreement, supra note 5.
\textsuperscript{40} See generally Matthias Herdegen, Principles of International Economic Law (Oxford Univ. Press 2013); see also P. Sean Morris, Book Review, 61 Neth. Int’l L. Rev.
that embeds the WTO and the economic security of states. Thus, the two main components of modern public international law are international economic law and international security law.\footnote{41} The latter governs how states react and protect themselves from military, terrorism and other conflicts, while the former provides economic security for the survival of the nation state.\footnote{42} Within the parameters of international economic law is the sub-branch of international intellectual property law. This sub-branch covers various forms of intellectual property law, such as trademark law, patent law, copyright law, and others. It is within the global intellectual property laws that the doctrine of exhaustion is a mystic creature—to be or not be. The doctrine covers how a good is distributed or sold and what happens afterward.

Exhaustion precludes the rights holder from relying on his or her rights to oppose any further distribution of the goods in question.\footnote{43} But the deepest mystery lies in the fact that exhaustion is unique to the place of the first sale.\footnote{44} Specifically, exhaustion is a territorial concept unique to a particular geographic location. For example, national exhaustion covers the territory of one state only, whereas regional exhaustion is applicable to a number of states and can conceivably be international in scope.\footnote{45} However, this latter version is a grandiose projection because, in reality, there is no such thing as international exhaustion.\footnote{46} During the oral arguments in \textit{Kirtsaeng}, there was a stark reminder that the principle of international exhaustion does not exist when, as Justice Ginsburg specifically stated, “no country has adopted that international exhaustion regime.”\footnote{47} So if there is no such thing as international exhaustion, where does the idea even come from? It has been suggested that exhaustion is a principle that emanated from distribution rights.\footnote{48}

\footnotesize{(forthcoming Dec. 2013) (reviewing \textsc{Matthias Herdegen, Principles of International Economic Law} (Oxford Univ. Press 2013)) (manuscript at 1) (on file with author).}


42. \textit{Id.}


44. \textit{See id.} at 911–12.


47. \textit{Id.}

48. \textit{See} André Lucas, \textit{International Exhaustion, in Global Copyright: Three Hundred Years Since the Statute of Anne, From 1709 to Cyberspace} 306 (Lionel Bently et al. eds., Edward Elgar Publ’g Inc. 2010).
In *UsedSoft*, the main point of contention was the distribution of “used” software, which the court determined was exhausted once it was sold in the European Union.\(^4^9\) Although it has been determined that exhaustion emanates from distribution rights, the boundaries of exhaustion are not clear-cut.\(^5^0\) To understand the principle of exhaustion, it must be considered in its elements, in particular international copyright law.

Currently, the plethora of international intellectual property legal instruments on copyrights makes it difficult to navigate and locate any concrete notion of first sale.\(^5^1\) In order to justify the exhaustion doctrine in the current international intellectual property instruments, one must reconcile with the fact that linguistic kerfuffle leaves us with varying expressions. With the implementation of the WTO and the number of Berne provisions incorporated in the TRIPS Agreement, it should be simple to approach legal principles in copyright and understand how world trade affects those principles. However, it is far from simple. The cluttering of international legal instruments on copyright law was never abated, and thus, there is a coexistence of these international legal

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49. Case C-128/11, UsedSoft GmbH v. Oracle Int’l Corp., 2012 EUR-Lex CELEX LEXIS 611CJ0128 (July 3, 2012), ¶ 72 (“[T]he right of distribution of a copy of a computer program is exhausted if the copyright holder . . . has authorized, even free of charge, the downloading of that copy from the [I]nternet . . . .”).

50. LUCAS, supra note 48, at 306 (“But the exhaustion doctrine of the distribution right does not have limits that are as clear as one would wish for legal safety’s sake.”).

instruments, copyright instruments, and the WIPO Treaty. Instead of harmonization, the world was left in a state of de-harmonization of copyright laws. The de-harmonization of copyright laws occurs when there is an expansion of copyright law treaties on both the international and regional level. These copyright law treaties do not result in a global copyright law, and the various differences are reflected in international copyright law treaties as well as national copyright laws of the individual nation states.52

Furthermore, the de-harmonization of copyright laws has been exacerbated by the fact that countries that want the maximum benefits of trade have different approaches to copyright protection.53 These different approaches highlight some of the most troublesome areas in copyright protection, including orphan works, the exhaustion of digital goods, fair use, and privateering to benefit producers of the goods.54 The latter situation shifts the concept of “ownership” from consumers, who normally would purchase the physical or digital copy of a product, to the hands of the producer.

There is also an increased reliance on turning to international law to solve economic disputes, such as economic harm for human rights, as in Kiobel v. Royal Dutch Petroleum Co.,55 or the interpretation of international treaties in regional intellectual property disputes.56 This reliance on international law signifies that where international law was once considered a weak and outcast system, it is now viewed as the most potent weapon to address economic wrongs. But why the sudden urge to turn to international law? The first argument originates with the formation of the WTO. The second argument is that the skepticism that once greeted the WTO is now behind us, and the realm of international trade is real. Trade goes beyond borders, and the legal rules of the nation states are no longer sufficient to sustain trade rules and economic regulation. Under the rubric of public international law, international economic law has morphed into the sole arbiter that brings about results that parties are willing to accept. The national law of one state may be

56. Morris, Knocking on the WTO’s Door, supra note 29, at 3 (discussing international copyright treaties).
The TRIPS Agreement provides copyright protection for “expressions and not to ideas,”\(^\text{57}\) and incorporates Articles 1 through 21 of the Berne Convention.\(^\text{58}\) However, it excludes, for example, Article 6bis of the Berne Convention, which covers moral rights.\(^\text{59}\) This pick and choose approach in international intellectual property treaties creates a hierarchy in international law where there is both an overprotection and an under-protection of economic rights. This hierarchy in the international economic regulatory system further de-harmonizes a system that is on its way to becoming a super-global regulatory system. The result of de-harmonization is that countries are expected to import the copyright norms of other states, however, some countries are unable to export their own copyright norms.\(^\text{60}\) Thus, the imbalance in the international copyright system encourages over-protection of copyright works owned by copyright holders in wealthier countries and results in under-creativity in poorer countries.\(^\text{61}\) The moral rights provisions in the Berne Convention arguably provide the best leverage for countries with TRIPS obligations since the provisions are applicable to all countries under the WTO.\(^\text{62}\) Although neither the Berne Convention nor the TRIPS Agreement rectified the imbalance of wealth resulting from the international copyright system, the Panel in United States – Section 110(5) of the U.S. Copyright Act\(^\text{63}\) found that both agreements formed “the overall framework” for the international

\(^{57}\) TRIPS Agreement, supra note 5, art. 9(2).

\(^{58}\) Id. art. 9(1).

\(^{59}\) Id.

\(^{60}\) The principal demandeur of excluding the moral rights obligations in the TRIPS Agreement was the United States, and scholars have explained the contradictory position of the United States (having accepted moral rights under the Berne Convention) as a result of the lack of an efficient dispute settlement system under the Berne Convention. See Lewinski, supra note 51, at 286.

\(^{61}\) Birnhack, supra note 92, at 500–01.

\(^{62}\) For example, a WTO panel report found, “proof of actual trade effects has not been considered an indispensable prerequisite for a finding of inconsistency with the national treatment clause.” Panel Report, United States – Section 110(5) of the U.S. Copyright Act, ¶ 6.183, WT/DS160/R (June 15, 2000), available at http://www.wto.org/english/tratop_e/dispu_e/1234da.pdf.

\(^{63}\) Id. ¶ 2.1. The dispute concerned section 110(5) of the U.S. Copyright Act of 1976 that placed limitations on the exclusive rights provided to owners of copyright regarding certain performances and displays.
intellectual property system, despite the Panel failing to address what this overall framework entails.64

A. Some Problematic Areas of Digital Exhaustion

The principle of exhaustion in European copyright law is fully recognized and forms part of the system that promotes trade and economic integration in a single market.65 Across the Atlantic, the basic principles of copyright exhaustion are the same.66 Once a copyrighted good has been sold, the copyright in that good has been exhausted and the copyright owner cannot erect barriers to prevent the buyer from reselling that good.67 In other words, the buyer does not need the approval of the copyright owner to distribute, dispose, sell, or exchange for financial compensation.68 However, as the cases below reveal, there are some interesting problems that copyright law faces in the area of exhaustion.

1. UsedSoft v. Oracle: First Sale Applies to “Used” Digital Software Sold Online

In UsedSoft GmbH v. Oracle International Corp., the CJEU held that copyright owner rights in software that is resold have been exhausted, thus preventing a rights owner from stopping the second-hand sale or distribution of software.69 The issue facing the CJEU was whether copyright owners’ rights in used software were exhausted when that software was resold as “used” software.70 The court answered this question in the affirmative.71 However, a number of issues were at stake.72 Some of these issues involved the very existence of international

64. Id. ¶ 6.66 (“In the area of copyright, the Berne Convention and the TRIPS Agreement form the overall framework for multilateral protection.”).
67. Id.
68. Id.
72. Id. ¶ 34.
law treaties, such as the WIPO Treaties on Copyrights as implemented in the European Union, as well as the rights of distribution and the exhaustion of copyrights in digital goods. The case unfolded in such a way that one could easily mistake its facts for those of David and Goliath. At the core of the case was determining how the exhaustion doctrine for copyrighted material affected international law.

The two software companies at the heart of the dispute were Oracle Corporation, an American behemoth for database software, and UsedSoft GmbH, a German start-up company that specialized in selling used software or software that had license keys that had already been activated. One of the pieces of software that UsedSoft sold to its customers was initially sold by Oracle to corporate customers. UsedSoft either acquired the software directly from Oracle, and activated it on its own, or it purchased the software from Oracle's customers. UsedSoft encouraged Oracle's customers who bought the original software to resell it to UsedSoft so that it could produce a new license key and then resell the software as “used.” This infuriated Oracle, which then initiated a lawsuit in UsedSoft's home country, Germany. When the case reached the CJEU, the court had to consider both international legal instruments and the European Union legal instruments that regulate copyrights. The questions that the CJEU was asked to consider were technical and elusive, but the underlying issue was interpreting the meaning of “lawfully acquired” and whether the copyright in lawfully acquired software was exhausted. The CJEU answered the latter in the affirmative.

According to the CJEU, software is lawfully acquired when it is first obtained (i.e., downloaded) from the copyright holder “onto the first acquirer’s computer.” The CJEU further posited that once a piece of software has been lawfully acquired, the copyright has been exhausted.

73. WIPO Copyright Treaty, supra note 5. See also, JORG REINBROTHE & SILKE VON LEWINSKI, THE WIPO COPYRIGHT TREATIES 1996 (Butterworths LexisNexis 2002).
74. UsedSoft, 2012 EUR-Lex CELEX LEXIS 611CJ0128, ¶ 34.
75. Id. ¶¶ 20, 24.
76. Id. ¶ 24.
77. Id.
78. Id. ¶¶ 24–25.
79. Id. ¶ 27.
80. Id. ¶ 34.
81. Id.
82. Id. ¶ 89.
83. Id. ¶ 59.
84. Id. ¶ 72.
According to the CJEU, the new lawful user is free to distribute or resell the software without any authorization from its copyright holder because “the right of distribution of a copy of a computer program is exhausted if the copyright holder [] has authorised” its download.\(^{85}\) The form of authorization was irrelevant to the court.\(^{86}\) Thus, whether the authorization was free or whether the software was authorized for compensation, the same logic applied—a user was not prevented from reselling the software.\(^{87}\) These conclusions by the CJEU have fueled a huge debate in both the academic and professional world of intellectual property law, international law, and in the trade of reselling used software.\(^{88}\) For example, in terms of international law, the CJEU decision could “serve to foster increased liberalization of trade in goods within the WTO, including those sold via the [I]nternet, recognizing the parallels between digital and physical goods.”\(^{89}\) There are also a number of observations and analyses of the case that provide different points of view.\(^{90}\) These analyses show that the case has significant implications, but the question remains—how will those implications arise, and how will they be addressed? This Article will attempt to answer these questions in Part B and C below.

While *UsedSoft* raised a number of concerns, this Article will discuss the case mainly in the context of international law.\(^{91}\) However, it must be noted that the case does not affect the trading of other goods on the Internet, such as music, video games, television programs, and resalable tickets.\(^{92}\) In the context of resalable tickets, such as those for a concert or soccer game, there is an absence of intellectual property rights, and *UsedSoft* does not address the trading of goods that are not

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85. Id.
86. See id.
87. Id.
91. See *UsedSoft*, 2012 EUR-Lex CELEX LEXIS 611CJ0128, ¶ 63.
92. See id. ¶¶ 72, 88 (discussing only computer programs).
covered by intellectual property rights. The issue of copyright exhaustion arises with the sale of used software because the contractual nature, vis-à-vis licensing is at issue, and thus so are intellectual property rights.

In *UsedSoft*, the 1996 WIPO Copyright Treaty was crucial in the context of international law. It set the tone for determining how digital exhaustion in copyrighted products should be construed in international trade occurring over the Internet. Thus, the case is even more important outside of the regional European legal system. Four years later, a Council Decision implemented the WIPO Copyright Treaties in the European Union. The Copyright Directive and the Computer Programs Directive were equally important in the *UsedSoft* case. The language in these two directives is similar to the language used in the WIPO Copyright Treaties. The judgment in *UsedSoft* begins by recognizing the opinion of the Advocate General, akin to a solicitor.

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93. See id. ¶ 88.

94. These concerns were notably picked up by some law firms and academics who posted their views on blogs. See Pollins, supra note 90 (“[T]he owners of other copyright works do not seem likely to suffer the same fate as the software vendors, because the relevant legal frameworks for software and other copyright works are different.”). See also Randal C. Picker, *UsedSoft GmbH v. Oracle: Are You Exhausted Yet?*, THE MEDIA INSTITUTE (July 19, 2012), http://www.medainstitute.org/IPI/2012/071912.php (“But the nominal legal arrangements for software are quite different than those for [used] books . . . .”); Dan Cheer, *There Will Never Be a Used Digital Market*, STUFF.CO.NZ (June 7, 2012, 5:00 AM), http://www.stuff.co.nz/technology/games/7227451/There-will-never-be-a-used-digital-market; Laurence Kaye, *Can Copyright Adapt to the Digital Age?*, INTERNET NEWSLETTER FOR LAWYERS (Sept. 2012), http://www.infolaw.co.uk/newsletter/2012/09/can-copyright-adapt-to-the-digital-age/.


99. See WIPO Copyright Treaty, supra note 5; Copyright Directive, supra note 97; Computer Programs Directive, supra note 65.
general in the United States.\textsuperscript{100} Advocate General Bot opined that international law supported “the restrictive interpretation of exhaustion,” and therefore, European Union copyright law should be seen as interpreted within the parameters of international copyright law.\textsuperscript{101} In light of this, the Copyright Directive, and the Computer Programs Directive, the Advocate General argued, “EU legislation must, so far as possible, be interpreted in a manner that is consistent with international law, in particular where its provisions are intended specifically to give effect to an international agreement concluded by the European Union.”\textsuperscript{102} Since the Advocate General did not want to suggest that the European Union would break its international legal obligations under the WIPO Copyright Treaty, he had to turn to international law.

The Advocate General argued that the interpretation of “sale of a copy” must be consistent throughout the European Union and must be interpreted in light of international law.\textsuperscript{103} Although the CJEU made no reference to international law, it ultimately agreed with the Advocate General that the term “sale” must be regarded “as designating an autonomous concept of European Union law, which must be interpreted in a uniform manner throughout the territory of the European Union.”\textsuperscript{104} This almost verbatim adoption of the Advocate General’s interpretation of “sale” was no coincidence. The CJEU, as the principal enforcer of European Union law, also believed that European Union law must be seen in light of international law.\textsuperscript{105} But the CJEU’s rosy approach to the application of international law in \textit{UsedSoft} was not without its fair share of critics. According to Ken Moon, the CJEU “inadvertently” breached the WIPO Treaty because European Union copyright law at the time did not comply with Article 8 of the WIPO Copyright Treaty.\textsuperscript{106} Moon’s

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{100} Opinion of Advocate General Bot, Case C-128/11, \textit{UsedSoft GmbH v. Oracle Int’l Corp.}, 2012 EUR-Lex CELEX LEXIS 611CJ0128 (July 3, 2012).
\item \textsuperscript{101} Id. ¶ 69.
\item \textsuperscript{102} Id.
\item \textsuperscript{103} Id. ¶ 51 (“[T]hat expression must be regarded, for the purposes of applying [Directive 2009/24], as designating an autonomous concept of EU law which must be interpreted in a uniform manner in the territory of all the Member States, taking into account in particular its terms, the context in which it is used and the objectives pursued both by that directive and by international law.”).
\item \textsuperscript{105} Opinion of Advocate General Bot, \textit{UsedSoft}, 2012 EUR-Lex CELEX LEXIS 611CJ0128, ¶ 51.
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assessment was one of many that emerged from the CJEU’s decision, and his criticisms are worth quoting in full:

Even if the ECJ reasoning is correct for current EU law, its decision in the Oracle case means that European copyright law does not comply with the WCT Article 8 which does not authorise any exhaustion of the copyright owner’s right of communication on first sale, let alone what in reality was a licence and not a sale.

Article 8 of WCT requires that member states of WCT must give to copyright owners the exclusive right to communicate their works to the public by wire or wireless means. Article 4 WCT confirms a computer program is a copyright work. Oracle communicated its software to its licensees. Under the WCT, licensees do not acquire any right to “re-communicate” their Oracle software to third parties. The WCT Article 8 does not allow any member state to make laws which exhaust Oracle’s exclusive right to communicate its software. The ECJ has interpreted European Union law to do just that. Such an interpretation means European law is in breach of the WIPO Copyright Treaty.107

Moon raised a number of interesting points, including the issue of contractual terms in licenses and the EU’s international legal obligations under the WIPO Treaty.108 Moon may have been trapped in a trajectory that does not offer a clear understanding of “exhaustion” and “communication to the public.” The latter, communication to the public, is difficult to distinguish from, for example, “selling.” The principle of exhaustion deals only with the right to distribute a work.109 It has nothing to do with exclusivity in copyright and the copyright owner can do as he pleases, including “communicate to the public,” in any format he chooses.110 This can range from performances, displays, and exhibits to copies.111 These forms of communication cannot be interpreted as distribution that is affected by the exhaustion principle.

UsedSoft is a landmark case with repercussions beyond the nation states of the European Union. The CJEU has effectively set a standard that is a model for the international trade of digital goods and perhaps even physical goods. The only problem is that the CJEU centered its interpretation on the Computer Programs Directive.112 The Copyright Directive has been in a sense sidelined, and the greater repercussions for

107. Id.
108. Id.
110. Id. ¶ 6.
111. See id.
112. Id. ¶ 48.
other physical goods will not necessarily mature. This is partially due to the contractual difference in the sale of digital goods, such as software, compared to the sale of physical goods, such as used books. The CJEU avoided any indication that the exhaustion principle it adopted in *UsedSoft* is also applicable to other intellectual property rights of protected goods, such as online music. Thus, the CJEU refrained from discussing what previous Advocates Generals have discussed in similar circumstances.

The *UsedSoft* decision created a whole new direction for copyright law, at least within the European Union. Furthermore, its implications are also global, bringing into question the nature of the current global copyright law system and whether it is actually fit for the current digital age. *UsedSoft* is also a direct warning to copyright owners that they cannot invoke their copyright simply to prevent the resale of a good that someone legitimately purchased. One could further deduce that the CJEU itself recognized that the current system of copyright regulations in the European Union is untenable due to the rise of the Internet and online trade and that it is time for copyright laws to be reviewed to keep up with the shifting dynamics of online commerce.

2. **Capital Records LLC v. ReDigi Inc.: Resale of “Used” Digital Music Constitutes Copyright Infringement**

In *Capital Records LLC v. ReDigi Inc.*, the U.S. District Court for the Southern District of New York was faced with similar facts as those in *UsedSoft*, but reached a contrary decision. The *Capital Records* court

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113. See id. ¶ 72, 88 (discussing only computer programs).
115. *See UsedSoft*, 2012 EUR-Lex CELEX LEXIS 611CJ0128, ¶ 88 (holding “the resale of a user licence entailing the resale of a copy of a computer program downloaded from the copyright holder’s website, that licence having originally been granted by that rightholder to the first acquirer for an unlimited period in return for payment of a fee intended to enable the rightholder to obtain a remuneration corresponding to the economic value of that copy of his work, the second acquirer of the licence, as well as any subsequent acquirer of it, will be able to rely on the exhaustion of the distribution right under Article 4(2) of that directive, and hence be regarded as lawful acquirers of a copy of a computer program within the meaning of Article 5(1) of that directive and benefit from the right of reproduction provided for in that provision”).
116. See generally id. ¶ 40.
117. Id. ¶¶ 83, 84.
held that the resale of “used” digital music files constitutes copyright infringement.119 In this case, Capitol Records, a subsidiary of the recording giant EMI, brought an infringement suit against ReDigi, a technology company that specialized in the re-sale of “used” music files that were bought from other vendors, such as iTunes.120 ReDigi argued that its “pre-owned digital” marketplace was akin to a used book store or a “used record store,” despite the fact that transactions “take place entirely in the digital domain.”121 ReDigi provided its users the opportunity to install software called “Media Manager” that scanned users’ computers for legally acquired music, and then allowed users to upload the music they wished to sell to ReDigi’s cloud servers.122 ReDigi asserted that the uploading of unwanted music files did not create a copy because those files have “migrated,” and therefore, “data does not exist in two places at any one time.”123 However, Capitol Records argued that ReDigi’s uploading process “necessarily involves copying.”124 Once a file was uploaded to ReDigi’s servers, the owner had the option of streaming the file for personal use or offering it for sale in ReDigi’s marketplace.125 If the owner chose to sell her music, she would lose access to the file, as it would be transferred to the new owner.126 ReDigi created a complex monetary system where no actual money exchange took place. Rather, users either bought credits from ReDigi or acquired them from other sales.127 However, ReDigi earned a sixty percent commission on each transaction that took place on its site.128

A number of Capitol Records’ songs were being “sold” on ReDigi’s site, which caused Capitol Records to file suit alleging that its copyrights were being violated.129 It asserted violations of three main copyright claims, including: (1) reproduction rights, (2) distribution rights, and (3) performance and display rights.130 ReDigi responded by invoking: (1) the fair use defense, unique to American copyright law, and (2)

119. Id. at *38–40.
120. Id. at *2.
121. Id. at *1–2.
122. Id. at *3.
123. Id. at *4.
124. Id.
125. Id. at *5.
126. Id.
127. Id.
128. Id. at *6.
129. Id. at *7–8.
130. Id. at *8.
The court considered the defenses and whether there was direct liability or secondary infringement liability. Ultimately, the court granted Capitol Records’ motion for summary judgment and found that ReDigi was liable for the direct and secondary infringement of Capitol Records’ reproduction and distribution rights.

The court had to interpret the doctrine of “first sale” in digital music files. The main issue involved “whether a digital music file, lawfully made and purchased, may be resold by its owner through ReDigi under the first sale doctrine.” The court noted that “section 106 of the Copyright Act grants ‘the owner of copyright under this title’ certain ‘exclusive rights,’ including the right ‘to reproduce the copyrighted work in copies’ or to distribute copies.” The court also observed that section 109 of the Copyright Act, which established the “first sale” doctrine, limits those exclusive rights.

This same problem confronted the UsedSoft court in Europe, as previously discussed; however, the principal difference between these two cases is the product involved. In UsedSoft, the product was software that was downloaded and then resold as “used.” In Capitol Records, the product was music that was previously legally downloaded and then resold, also as “used.” The court challenged this issue head on, and surprisingly reached a different conclusion than that of the European Court.

According to the court in Capitol Records, “the first sale defense does not permit sales of digital music files [that were uploaded to] ReDigi’s website.” Moreover, the court reasoned that ReDigi’s entire
business model was “built on the erroneous notion that the first sale defense permits the electronic resale of digital music.” The court articulated:

[T]he first sale doctrine does not protect ReDigi’s distribution of Capitol’s copyrighted works. This is because, as an unlawful reproduction, a digital music file sold on ReDigi is not “lawfully made under this title.” Moreover, the statute protects only distribution by “the owner of a particular copy . . . .” Here, a ReDigi user owns the [digital music] that was created when she purchased and downloaded a song from iTunes to her hard disk. But to sell that song on ReDigi, she must produce a new [digital music file] on the ReDigi server. Because it is therefore impossible for the user to sell her “particular” [digital music file] on ReDigi, the first sale statute cannot provide a defense . . . . [T]he first sale defense is limited to material items, like records, that the copyright owner put into the stream of commerce. Here, ReDigi is not distributing such material items; rather, it is distributing reproductions of the copyrighted code embedded in new material objects, namely, the ReDigi server . . . and its users’ hard drives. The first sale defense does not cover this any more than it covered the sale of cassette recordings of vinyl records in a bygone era.

The court agreed that technological change has thrown into question the status of the first sale doctrine and has made it “unsatisfactory to many contemporary observers and consumers,” however, such changes “ha[ve] not rendered it ambiguous.” It also cited a report by the U.S. Copyright Office that rejected an extension of the first sale doctrine to the distribution of digital works. The court observed that the first sale doctrine under section 109(a) protects the lawful owner’s sale of a variety of formats on which a music file was originally stored, but that only the legislature can determine which form was outmoded. Despite its attack on the first sale doctrine, the court

143. Id. at *45.
144. Id. at *32–33 (citing 17 U.S.C. § 109(a)).
145. Id. at *33.
146. Id. at *34 (citing U.S. COPYRIGHT OFFICE, DMCA SECTION 104 REPORT (2001)).
147. Id. at *36. The court added:

While this limitation clearly presents obstacles to resale that are different from, and perhaps even more onerous than, those involved in the resale of CDs and cassettes, the limitation is hardly absurd—the first sale doctrine was enacted in a world where the ease and speed of data transfer could not have been imagined. There are many reasons . . . for why such physical limitations may be desirable. It is left to Congress, and not this Court, to deem them outmoded.

Id.
believed that it “cannot of its own accord condone the wholesale application of the first sale defense to the digital sphere, particularly when Congress itself has declined to take that step.” The court’s conclusion on the doctrine of first sale regarding digital music was, at best, unavailing. The court, for one, failed to address with any specificity the first sale principle, and from the outset failed to recognize the importance of the case. Thus, it came up with a way to circumvent a more detailed analysis by warning that it was neither a “congressional subcommittee or technology blog.” Unfortunately, this was not the best way to address the complex issue at the heart of the dispute.

Eleven days prior to the decision in this case, the U.S. Supreme Court addressed the issue of first sale regarding physical goods in *Kirtsaeng v. John Wiley & Sons, Inc.* and adopted the principle of international exhaustion. However, the district court in *Capitol Records* decided not to follow the highest Court of the land since the goods in question were of a different type and the production or sale occurred in a different marketplace. Nevertheless, the quintessential issue at the heart of both cases was the nature of the first sale doctrine. A possible explanation for the district court’s cold feet is that it was the first time the principle of first sale, as applied to digital goods, was considered in a United States court. Thus, it was likely that the district court wanted the Supreme Court to decide such an issue rather than it, or as the district court suggested, the legislature. But the court may have also wanted to send a clear message that copyright owners should be compensated for their economic right, and therefore, potential infringers cannot claim the first sale defense for digital goods. As the court stated, the uploaded files were reproduced, and therefore such reproduction infringed the copyright owner’s ability to distribute the goods. Thus, by rejecting ReDigi’s claim that the digital music files

148. Id. at *49.
149. Id. at *1.
152. Id. at *11 (acknowledging the “novel question presented” in the case).
153. *See id.* at *36.
154. Id. at *18–19. The court explained:

[T]he reproduction right is necessarily implicated when a copyrighted work is embodied in a new material object, and because digital music files must be embodied in a new material object following their transfer over the Internet, the Court determines that the embodiment of a digital music file on a new hard disk is a reproduction within the meaning of the Copyright Act.

*Id.* at *16.
only “migrated,” the court held that once migrated to a new location, the digital music file was embodied in a new material object.\textsuperscript{155} Whether the first sale doctrine applied to reproduction rights was also considered and rejected in Europe by Advocate General Bot in \textit{UsedSoft}, where he pronounced that there are no legal grounds to apply the first sale doctrine to reproduction.\textsuperscript{156}

It is necessary to take a broader look at what was happening in the context of online commerce, and thus, the global trade in digital goods. From a commercial point of view, ReDigi created a secondary market for online digital goods and was selling those goods at prices significantly below the major digital goods providers in the music industry, such as iTunes.\textsuperscript{157} ReDigi was offering its pre-owned digital music files for fifty-nine to seventy-nine cents each, compared to the ninety-nine cents offered through iTunes.\textsuperscript{158} From this perspective, consumers were the winners—they were getting digital goods from an alternative outlet that was less expensive. Additionally, ReDigi put in significant effort to ensure that its digital goods were legal. It confirmed that the copy on the seller’s computer was deleted by using its Media Manager software to search the device.\textsuperscript{159} So why then was the court so heavy-handed on ReDigi? It was because of competition in the marketplace. Rival sellers could implicitly collaborate with major online record labels to ensure that the competition was wiped out. By offering a rival service for pre-owned digital goods, ReDigi was disturbing the accepted trend that only major providers with whom record labels have lucrative licensing agreements may sell digital goods.

From here, the focus will shift from digital goods to physical goods and how they affect international economic regulation.

\textsuperscript{155} \textit{Id.} at *17–18. The court stated:

\textit{[T]he fact that a file has moved from one material object—the user’s computer—to another—the ReDigi server—means that a reproduction has occurred. Similarly, when a ReDigi user downloads a new purchase from the ReDigi website to her computer, yet another reproduction is created. It is beside the point that the original [digital music file] no longer exists. It matters only that a new [digital music file] has been created.}

\textit{Id.} at *18.


\textsuperscript{157} \textit{Capitol Records}, 2013 U.S. Dist. LEXIS 48043, at *2.

\textsuperscript{158} \textit{Id.} at *2, *6.

\textsuperscript{159} \textit{Id.} at *2–3.

The principle of copyright exhaustion\(^{160}\) faced one of its most stringent tests in *Kirtsaeng*.\(^{161}\) In the end, the Supreme Court wisely adopted the principle of international exhaustion and avoided throwing the entire copyright system in disrepute.\(^{162}\) The case was not that unusual in the intellectual property world, however, what was significant about this case was the fact that it reached the Supreme Court. Supap Kirtsaeng was a Thai mathematician studying in the United States who decided to pursue a financial reward scheme.\(^{163}\) He purchased books outside of the United States from a publisher, Wiley Asia, at rock bottom prices compared to those sold in the United States.\(^{164}\) Given the price differences, Kirtsaeng asked a relative in Thailand to purchase the books and ship them to him in the United States, where he sold them at market prices, earning a substantial profit.\(^{165}\) Consequently, Wiley sued for copyright infringement.\(^{166}\) In March 2013, the Supreme Court held that the first sale doctrine, as codified in the U.S. Copyright Act, applies to copies of copyrighted works lawfully made abroad.\(^{167}\)

The main issue in the case was the first sale doctrine, or copyright exhaustion.\(^{168}\) This principle is codified in the U.S. Copyright Act\(^{169}\) and provides that the owner of a copyrighted work “lawfully made under this title” has the right to sell or dispose of the possession of that copy.\(^{170}\)

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\(^{162}\) Id.

\(^{163}\) Id. at 1356.

\(^{164}\) Id.

\(^{165}\) Id.

\(^{166}\) Id. at 1357.

\(^{167}\) Id. at 1358.

\(^{168}\) Id.


\(^{170}\) 17 U.S.C. § 109(a) (“[T]he owner of a particular copy . . . lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of
Wiley sued for copyright infringement under the U.S. Copyright Act, alleging that its section 106(3) exclusive right to distribute was violated, and asserting violations under section 602 regarding import prohibitions. Wiley argued that the term “lawfully made under this title” had a geographical connotation to it and would, therefore, prevent the first sale doctrine from applying to Wiley books that were sold in Asia. Kirtsaeng maintained that there was a “non-geographical limitation” that was “in accordance with” or ‘in compliance with’ the Copyright Act,” therefore permitting the first sale doctrine to apply to Wiley Books sold outside the United States. Kirtsaeng contended that his books were “lawfully made” and that he had acquired them legitimately,” and as such, the first sale doctrine under 109(a) of the Copyright Act allowed importation and resale without the need to get authorization from Wiley. The Supreme Court agreed.

The Court found Wiley’s argument on geographical limitation unpersuasive and “bristle[d] with linguistic difficulties.” According to the Supreme Court, Congress “did not have geography in mind” when writing the present version of the first sale doctrine, and therefore it was “unlikely that Congress would have intended” the consequences produced by a geographical interpretation. The Court further opined, “the fact that harm has proved limited so far may simply reflect the reluctance of copyright holders so far to assert geographically based resale rights.”

However, in 2010, the Supreme Court also faced the question of the first sale doctrine in Costco Wholesale Corp. v. Omega S.A. Prior to reaching the Court, the U.S. Court of Appeals for the Ninth Circuit held that the first sale doctrine applied only to copyrighted works that were

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the copyright owner, to sell or otherwise dispose of the possession of that copy . . . .

See also 17 U.S.C. § 106(3) (“[T]he owner of copyright under this title has the exclusive rights to do and to authorize . . . [the] distribution . . . of the copyrighted work to the public by sale or other transfer of ownership . . . ”).

171. Kirtsaeng, 133 S. Ct. at 1357.
172. Id. at 1357–58.
173. Id. at 1358.
174. Id. at 1357.
175. Id. at 1357–58.
176. Id. at 1358.
177. Id. at 1360, 1362.
178. Id. at 1366.
produced in the United States. The Supreme Court Justices split 4-4, which meant the Ninth Circuit’s holding was affirmed. In Kirtsaeng, the Supreme Court took the opportunity to address the copyright exhaustion principle “in light of different views among the circuits,” specifically noting the Costco decision. In Kirtsaeng, the Court was able to lay the issue to rest once and for all. However, neither decision was unanimous, and the split decisions on both occasions reflect the problem with modern copyright laws—what is the precise role of the first sale doctrine in global trade?

The stark difference between Kirtsaeng and Capitol Records is that the Supreme Court in Kirtsaeng took into consideration economic policies that encourage free trade and competition in the global marketplace. It determined that competition was good for the market since it embodied the “freedom to resell, [and] can work to the advantage of the consumer.” According to the Kirtsaeng Court, it is important to leave “buyers of goods free to compete with each other when reselling or otherwise disposing of those goods.” On the other hand, the U.S. District Court for the Southern District of New York appeared to have only the copyright owner’s interest in mind when it extended the owner’s copyright monopoly in the resale market to digital goods. The court in ReDigi believed that ReDigi was undercutting the “market for or value of the copyrighted work” and “divert[ing] buyers away from [Capitol Records’] primary market.” The court’s attempt to stifle free competition and extend copyright monopoly is concerning for

182. Kirtsaeng, 133 S. Ct. at 1357.
183. Id. at 1358.
184. See id; see also Costco Wholesale Corp., 131 S. Ct. 565.
185. See Peter J. Karol, How Do You Solve a Problem Like ReDigi?, LAW360, 3 (Apr. 12, 2013, 1:13 PM), http://www.nesl.edu/ReDigi%20Final%20Law360.pdf (calling the district court’s ruling “facially absurd”).
187. Id.
188. See Karol, supra note 185.
global trade because the sale of digital goods, downloaded over the Internet, is not confined to a single country.

B. First Sale Doctrine in Global Trade

The current system of international trade in both digital and physical goods is exerting pressure on the intellectual property system. Although there is a regime for intellectual property in the WTO legal structure, that regime itself is complicated and divided. There has been no true measure of success due to the few intellectual property cases that are handled in the WTO dispute settlement system.

1. The Ugly Truth About International Price Discrimination

Supap Kirtsaeng profited because he took advantage of price differentials in the sale of Wiley books. This presents an ugly truth about price discrimination—it is an archaic concept in the context of global trade and should be done away with. Price discrimination in global trade does not achieve the effect that it ought to. Rather, it presents an avenue for consumers in some countries to obtain goods at a lower price, while consumers in another country, such as the United States, are forced to pay higher costs. Because of the transformation of the world trading system and the emergence of the Internet, the need to price discriminate with respect to goods is no longer necessary. It encourages savvy entrepreneurs to engage in resale, importation, and the mark-up of goods. In the online music industry, songs are often sold at ninety-nine cents on iTunes, irrespective of the global geographic location. The Internet itself is a global location and consumers in different territories drive the sale of goods on this global outpost of consumer commerce. Another example is when Microsoft Corporation sells software to consumers for their personal computers. The cost for a license is already predetermined, and there is not a different price for Nauru, Timbuktu, or American consumers. These examples are also applicable to a number of other consumer goods that are traded or sold online.

190. See Kirtsaeng, 133 S. Ct. at 1375 (“Kirtsaeng imported and then sold at a profit over 600 copies of copyrighted textbooks printed outside the United States.”).
However, as we saw in Kirtsaeng, it was the difference in prices that allowed Kirtsaeng to profit.192 The practice of price discrimination no longer needs to be supported in international trade, in particular regarding consumer goods, and copyright law reform could play a crucial role in this transformation. Because of international price discrimination, copyright law has been less effective and creates a system of both under-inclusiveness and over-inclusiveness.193

2. Global Trade and Secondary Markets for Digital Goods

We are left to ponder an important issue from the cases above—the nature of global trade and the secondary market for digital goods. The Capitol Records ruling has a negative effect for world trade in digital goods and does not send the correct signal to traders who engage in a secondary market for digital goods.194 Consumers who make an investment in a digital product and subsequently would like to dispose of that product should be free to do so. Trade and competition in the resale of digital goods should be encouraged, as it is with other physical goods. Fortunately, the negative signal sent by Capitol Records was offset by the CJEU in UsedSoft.195 However, the geographical markets in question in these two cases are different and have varied legal systems. On the one hand, there is the European Union and the integration of a single market. The CJEU has generally interpreted case law from a policy perspective to entrench the pillar of the free movement of goods,

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192. See Kirtsaeng, 133 S. Ct. 1351, 1375.
193. See Copyright Law -- First Sale Doctrine -- Second Circuit Holds that the First Sale Doctrine Does Not Apply to Imported Works Manufactured and First Sold Abroad, 125 Harv. L. Rev. 1538, 1544 (2012) (reviewing John Wiley & Sons, Inc. v. Kirtsaeng, 654 F.3d 210 (2d Cir. 2011)). Harvard’s review of the case found: [I]n the context of international price discrimination, copyright is both underand overinclusive. It is an underinclusive tool for price discrimination because it excludes manufacturers that do not produce goods that can be protected by copyright . . . . [C]opyright’s core purpose of monopolizing specific categories of intellectual property products for societal benefit . . . demonstrates how copyright can be overinclusive . . . . This overinclusiveness has channeled price discrimination disputes that are not, at their core, legitimate copyright claims into copyright litigation. This simultaneous over- and underinclusiveness demonstrates that copyright is an inexact tool for generalized price-protection regulation.

Id.
a key element in the European economic integration project. On the other hand, there is the United States market, where competition is stiff and the sale of digital goods is often concentrated in the hands of a few large corporations who generally balk at the idea of a secondary market that is in competition with their main market. This is a bad omen for global trade in the secondary market for digital goods.

One may also view the decision in *Capitol Records* as a backdoor attempt to restrict the sale of digital goods.\(^{196}\) In this sense, other areas of law, such as antitrust law, need to play a role in any form of restriction on the sale of digital goods. This is one area that the WTO by itself cannot handle because of the lack of international competition principles in the WTO. Although bringing an action in the WTO requires a state to initiate a complaint, this is not a high hurdle. Granted political considerations would admittedly factor into the decision, the affected company or trader resident in such state need only ask that state to initiate a complaint in the WTO.\(^{197}\) However, because of the lack of international competition principles, only the current international intellectual property principles embodied in the WTO can reconcile the different approaches to copyright exhaustion in the major economies of the world. Thus far, the Supreme Court has embraced the correct principles of copyright exhaustion in relation to physical goods as in *Kirtsaeng*.\(^{198}\) Therefore, there is still some hope that if a case similar to that of *Capitol Records* was to reach the Court, it may apply the same sound principles as those applied in *Kirtsaeng*.

Secondary markets have long been a mainstay of most economies. They allow those who are unable to own new goods to have an opportunity to own a “used” or “second-hand” version. Furthermore, a secondary market is driven by sound economics and pricing. If one cannot afford a name brand jacket or a name brand car, one will visit a thrift store or a used car lot to find the goods. The prices for goods in a secondary market are usually below the original price because they have passed through another consumer first. In addition, the very existence of a secondary market propels a more competitive economy, which is good for the global marketplace. A number of products are offered on a global market at uniform prices, and this is even more true with digital

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goods that can be downloaded from any part of the world. Thus, copyright owners have an incentive to produce quality and uniform goods that are consistent with a single pricing formula. Such uniformity in the pricing of digital goods, when offered by more than one firm, would result in the reseller being perceived as a threat to the original producer’s profit. Because of these perceived threats to the market, the existence of a secondary market offering the same goods at discount prices, albeit “used,” threatens original producers’ profitability. Thus, producers invoke the one weapon in their arsenal—copyright infringement. However, that arsenal has often been deployed based on unsound legal reasoning and has attempted to shove the first sale principle off the banks of the rivers that fertilize global competiveness and the trade in the market for digital goods.

But all of this raises the most fundamental question in international trade and international intellectual property law: Should there be an international exhaustion regime? The TRIPS Agreement, as it stands, tells us “no.” The Supreme Court in *Kirtsaeng* essentially said “yes” by holding that the first sale doctrine in United States copyright law applies to goods sold outside of the United States. However, the Supreme Court flatly rejected the actual existence of international exhaustion, as did similar courts in Europe. According to the CJEU in *Laserdisken v. Kulturministeriet*, there cannot be international exhaustion, but there can be regional exhaustion—that is, exhaustion of goods only sold within the European Union. The most significant aspect of *Kirtsaeng* is that it embraces the principle of international exhaustion, the subject of epic battles during the negotiation of the TRIPS Agreement. Now with the failed ACTA, the Supreme Court has single handedly created the principle of international exhaustion. This is even more important because the United States is the single most important economy for global trade and is involved in practically all of the litigation activities in

201. *Id.* at 1373 (Ginsburg, J., dissenting) (“[The Court’s holding] places the United States at the vanguard of the movement for ‘international exhaustion’ of copyrights—a movement the United States has steadfastly resisted on the world stage.”).
202. *Laserdisken*, 2006 E.C.R. 1-8089, ¶ 24. (“It follows from the clear wording of Article 4(2) of Directive 2001/29, in conjunction with the twenty-eighth recital in the preamble to that directive, that that provision does not leave it open to the Member States to provide for a rule of exhaustion other than the Community-wide exhaustion rule.”).
203. *Kirtsaeng*, 133 S. Ct. at 1383.
the WTO dispute settlement body. Therefore, the United States’ adoption of an international exhaustion principle could mean that it is on its way to becoming a global principle, at least if the TRIPS Agreement was to be amended.

There are two broad implications from the Kirtsaeng decision for the current structure of international trade and intellectual property rules. First, other nations need to embrace the principle of first sale not only in digital goods, but also for physical goods, and thus create a club of international exhaustions. Second, the current intellectual property rights rules need to be modified, specifically the copyright laws and Article 6 of the TRIPS Agreement.

C. Should Copyright Law be Revised?

In May 2013, shortly after the Kirtsaeng decision, Congress convened a hearing on copyright consensus where an eminent professor of intellectual property law testified that U.S. copyright law was akin to “a patchwork quilt” due to its many amendments over the years. But this observation is not limited to the U.S. copyright law regulatory system. In other countries, copyright laws have also been amended on several occasions to change with the economic realities of the time and trade. Moreover, in some supra-national legal systems such as the European Union, the patchwork of copyright laws can be found in several regulatory directives.

204. Gregory Shaffer, Michelle Ratton Sanchez & Barbara Rosenberg, The Trials of Winning at the WTO: What Lies Behind Brazil’s Success, 41 CORNELL INT’L L.J. 383, 411 (2008) (“[T]he United States has participated as a party or third party in approximately 99% of WTO cases that resulted in an adopted decision . . . .”).


legal challenges have proposed the question of whether the current system of copyright laws is able to keep up with the changing times. Since the Statute of Anne in 1709, the copyright system has not changed much. However, the exhaustion of digital goods poses a threat to that copyright system. We must find a remedy that all actors in the international copyright regulatory regime will accept. However, the question remains as to what type of remedy will adequately protect digital copyrighted goods that are traded across borders.

The TRIPS Agreement should be amended to include a global copyright “super” code with legal effect on all WTO members. The copyright super code would make national copyright laws irrelevant. First, it is widely acknowledged that the current TRIPS regime of global intellectual property law is not perfect. This is largely due to the consensus reached at the Uruguay Round of Negotiations for the WTO, where most disagreements were regarding intellectual property. In order to get those negotiations out of the way, a number of nations signed under the influence that “better must come.” The material benefits that the TRIPS Agreement was expected to bring never materialized, and since then, the TRIPS Agreement has become a major bone of discontent in international trade and economic regulation. In order to move beyond this discontent and take into account the realities of today’s global world over the Internet, a super copyright code should be instituted to correct the “patchwork quilt” of the global copyright

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208. Berman, supra note 206, at 347.
209. See An Act for the Encouragement of Learning, by Vesting the Copies of Printed Books in the Authors or Purchasers of such Copies, During the Times therein mentioned, 1710, 8 Anne, c. 19. The Statute of Anne is considered the first copyright statute in the world. In 1741, Denmark became the second country to enact a similar copyright statute. John Henry Wigmore, A General Survey of Events, Sources, Persons and Movements in Continental Legal History 565 (Ernst Freund et al., eds., Thomas S. Bell et al., trans., Boston, Little, Brown and Co. 1912).
regulatory regimes. As a result, there would be a more dynamic global copyright system where predictability, consistency, and uniformity exist.

1. Burning Berne

The first step in revising the international copyright system is getting rid of the Berne Convention in its entirety. Despite the enactment of new treaties, it has stood for more than a century and continues to enjoy an eminent place in the plethora of copyright treaties.\footnote{See Peter K. Yu, Currents and Crosscurrents in The International Intellectual Property Regime, 38 LOY. L.A. L. REV. 323, 339–40 (2004).} The problem with Berne and its contemporaries is that it coexists with other copyright treaties and competes for a regulatory regime that was designed for \textit{old} copyright norms. These old copyright norms developed to cater exclusively to a print medium.\footnote{Id. at 331–32 (discussing the development of copyright laws in fifteenth century Venice).} There was a missed opportunity to burn Berne when it was last amended in 1979.\footnote{Summary of the Berne Convention for the Protection of Literary and Artistic Works (1886), WORLD INTELLECTUAL PROPERTY ORGANIZATION, http://www.wipo.int/treaties/en/ip/berne/summary_berne.html (last visited Oct. 19, 2013).} When the TRIPS Agreement was adopted, only the significant portions of Berne were recognized.\footnote{Id. at n.1.} Thus, both the Berne Convention and the TRIPS Agreement stand as today’s preeminent international copyright treaties. In a global trading system, this coexistence of copyright norms only brings more confusion to the system. The dual competition between the old guard and the new guard plays a formidable role in the current global copyright system and inhibits necessary changes to move forward in our digital age.

Repealing the Berne Convention would pave the way for another amendment to the TRIPS Agreement that could lead to a super copyright code. Alternatively, the TRIPS Agreement could be ultimately repealed and replaced with a new TRIPS Agreement, like ACTA, discussed below.\footnote{See infra pp. 41–42.} Certainly, the idea of repealing the Berne Convention is not new.\footnote{See Story, supra note 51.} But what distinguishes past arguments from the current argument is the emergence of digital goods and other copyright related issues in the new global economy. Alan Story has made similar arguments for repealing the Berne Convention, claiming that it has created a system of un-balanceable rights since owners’ rights and users’
rights are geographically divided. He argues that the international copyright system is "a hierarchical system of straitjackets" where imbalances are created due to a central author figure who is essentially used as a tool for multi-national corporations that "surrogate to further spread their copyright power across the globe." It is because of this new prowess of copyright laws that Berne should be burned and a new TRIPS Agreement should be negotiated to create a super copyright code. It should guarantee a new meaning of authorship and originality in copyright laws, both for the multinational and the creator in Timbuktu. As a result, the different copyright norms recognized in various nation states would finally be harmonized.

A form of equal rights in copyright law would also ensure that all copyrighted goods are treated the same and would prevent the need for less deprived communities to encroach on a copyrighted product. Many of the instances of copyright infringement deal with major multinationals in wealthy Western countries that take on poor countries where copyright infringement is allegedly rampant. This is evident in various forms, such as bootlegging, hosting websites that accommodate illegal downloading, and others as seen in the case of Kirtsaeng. A super copyright code would correct this deficiency by eliminating price discrimination for copyrighted products and recommending a retail price that is applicable in all countries, regardless of economic prosperity.

2. Customary Territorial Copyright Norms

With the adoption of a super copyright code under the WTO, one issue would still remain: the territoriality of copyright laws. Under the current copyright law regime, copyright laws are territorial in nature and are applicable only in the territory of the nation state in question. However, apart from the territoriality of copyright laws, there are also certain norms that are applicable in some nation states but not in others. For example, the principle of moral rights may be recognized in Canada,

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218. Id. at 788, 797 (stating that the underlying ideology of the Berne Convention "reinforces existing global economic inequalities").

219. Id. at 793 ("Under Berne, the active promotion (or threatened diminution) of authors’ rights becomes the sole standard or yardstick of evaluation. Berne is revealed as an unbalanceable international vehicle to govern relationships between widely unequal countries with regard to their current capacities to produce, trade, and use copyrighted works.").


but may be interpreted differently in the United States.222 One way of addressing this divergence under the new super copyright code would be to create an exception that recognizes customary territorial copyright norms. Under customary territorial copyright norms, nations that implement the super copyright code could have certain provisions recognizing that certain copyright customs would apply. However, in order to qualify for such an exemption under the super copyright code, the nation would have to establish that it had a long history of using such norms in copyright infringement cases.

The notion of customary territorial copyright norms would have a broad implication for the system of international intellectual property and could conceivably solve the tricky problem of “traditional knowledge.”223 In some ways, traditional knowledge is specific to certain locations in a country, and the current TRIPS Agreement recognizes the protection of geographical indications (GIs).224 Through this recognition, traditional knowledge could be incorporated into GIs.225 Under the super copyright code, countries that advocate the need to protect traditional knowledge could have the opportunity to seek exemption for traditional knowledge as a form of a customary territorial norm in the broader field of intellectual property.

3. Reviving the Anti-Counterfeiting Trade Agreement

One last ditch effort could be made in reviving the Anti-Counterfeiting Trade Agreement (ACTA)226 as well as its sister treaties.

224. See TRIPS Agreement, supra note 5, art 22.
226. ACTA, supra note 11. ACTA was designed as a weapon to fight and police the growing global trend of counterfeit and pirated goods “through enhanced international cooperation and more effective international enforcement.”
that never saw the light of day, such as the Stop Online Piracy Act (SOPA) and the Protect IP Act (PIPA).\textsuperscript{227} However, such a revival would depend on democratic legitimacy, taking into account players such as non-governmental organizations, smaller trading economies, and other parties in the global trading system. In the ACTA draft agreement, section 5 provides for the “Enforcement of Intellectual Property Rights in the Digital Environment.”\textsuperscript{228} It was envisioned that “effective action against an act of infringement of intellectual property rights which takes place in the digital environment” would at least provide a remedy for digital exhaustion.\textsuperscript{229} Under ACTA, it seems likely that all infringements of intellectual property that occur over the Internet would be prosecuted with the full force of the law. For instance, Article 27(2) provides that “infringement of copyright or related rights over digital networks” is the core concern.\textsuperscript{230} However, the broad language of ACTA’s draft agreement in Article 27 appears to have in mind commercial companies that operate in ACTA countries. Perhaps that is understandable, though, since ACTA countries contribute to the majority of global trade and financial earnings.\textsuperscript{231} There was one problem that concerned the drafters of ACTA: the possibility that electronic commerce would be severely affected by new measures that would effectively put the Internet under lock and key, and thus stymie Internet commerce.\textsuperscript{232} However, ACTA sought to rectify this concern by proposing new rules that would be implemented in such a way that any “barriers to legitimate activity,” such as electronic commerce, would be avoided.\textsuperscript{233} This would, however, be difficult to put into practice. Legitimate businesses that offer digital products would bear the brunt of ACTA enforcement for digital goods, which would result in costs being passed on to consumers. The effect would be an increase in costs for digital goods and a proliferation of


\textsuperscript{228} ACTA, supra note 11, at E-14. According to one observer, although during the negotiation of ACTA “the issue of IP enforcement in the digital environment captured countless negotiating hours and received considerable media attention, several ambitious provisions seen . . . were slowly whittled down to nothing more than statements of aspirations in the final text.” Bryan Mercurio, \textit{Beyond the Text: The Significance of the Anti-Counterfeiting Trade Agreement}, 15 J. INT’L ECON. L. 361, 372 (2012).

\textsuperscript{229} ACTA, supra note 11, art 27(1).

\textsuperscript{230} Id.


\textsuperscript{232} See ACTA, supra note 11, art. 27(2).

\textsuperscript{233} Id.
copyrighted digital goods that ACTA should have prevented in the first place. Although ACTA’s concerns over the sale of digital goods are still present, the more difficult question is how to fix the system. Should ACTA be revived, or should an alternative be established?

4. Should There be a Global Super Copyright Code?

The current problems that face national copyright laws and the trade in digital goods require a global copyright code. Undoubtedly, this is not the first time there has been a call for a super copyright code, and it will certainly not be the last.234 While the TRIPS Agreement was a step in the right direction by harnessing the copyright provisions of the Berne Convention and creating a dispute settlement mechanism, it still did not produce a sufficient copyright code for today’s development in trade and digital commerce. A super copyright code would embrace the elements of the current disentanglement of international copyright instruments, regional copyright instruments, and national copyright laws to create a global copyright code that moves the regulation of creativity beyond the nation state. In other words, copyrights and related rights would be seen as a global good to be embraced by all, and regulation would be for the greater creative good of mankind. Perhaps the single most important factor for a global copyright code is the importance of the digital economy in our modern lives.

The Internet is the main instrument for trade in the digital economy and it has become a forum for originality, ideas, expression, music, propaganda, and a host of other creative elements that are subjected to copyright protection. However, the copyright laws of a single state are weak with regard to how much protection they can provide for all of the creative contents and elements that occur over the Internet. Oddly, from a commercial perspective, although Google, Inc. has cached, indexed, and organized global data on a monstrous scale, it must respond to individual nation state copyright laws.235 Given the inherent weaknesses in the national copyright laws of many nation states, there is need for a more omnipotent force to regulate this borderless world. A global copyright super code that is recognized by all nation states and that contains effective dispute settlement mechanisms transposed from the current TRIPS regime could easily fill this role. Furthermore, a system


of district (country) and circuit (regional) copyright courts could be established in order to minimize the stress load that would result.

Another factor that must be considered is that the dissemination of digital goods requires some type of uniformity in the norms that regulate such dissemination. According to Jane Ginsburg, national copyright norms do not fit this direction of copyright goods. 236 Even if one was to argue that it is impossible to get rid of national copyright laws, if a super copyright code were in place, national copyright laws would only be applicable to non-traditional areas of copyright protection that are unique to that nation state. For example, the notion of reggae open source could be described as a non-traditional area of copyright. 237 However, this may be highly dubious since its main assertion is linked to the development of open source software, which is a recent phenomenon, as compared to the emergence of reggae music in late 1940s–1970s. Nevertheless, the broader point is that the notion of reggae open source could be considered as a non-traditional area of copyright. Aside from this, the notion of reggae open source from a legal point of view challenges the very existence of copyright law, or at least challenges how copyright laws are currently formulated. This challenge to the copyright regime further advances why there is such a need for reform.

CONCLUSION

Considering the rate at which new challenges are occurring in the digital arena and the borderless flow of copyrighted goods, copyright law cannot afford to ignore these observations. In fact, copyright law needs to embrace these observations and devise strategies to fashion them into regulatory norms. Copyright law, as it currently stands, is in the depths of the abyss and needs to be rescued. The observations from this Article provide some suggestions on how to rescue it. A reformed system of copyright law should accommodate some of these observations and

236. See Ginsburg, supra note 234, at 284. (“International uniformity of substantive norms favors the international dissemination of works of authorship. If the goal is to foster the world-wide human audiences for authors in the digital age, then one might conclude that national copyright norms are vestiges of the soon-to-be bygone analog world.”).

237. See Jason Toynbee, Reggae Open Source: How the Absence of Copyright Enabled the Emergence of Popular Music in Jamaica, in COPYRIGHT AND PIRACY: AN INTERDISCIPLINARY CRITIQUE 357 (Lionel Bently, Jennifer Davis & Jane C. Ginsburg eds., Cambridge Univ. Press 2010) (arguing that reggae music emerged in Jamaica due, in part, to the absence of copyright law).
create a statutory structure that is an optimal outcome for both copyright owners, or rights holders, and the end users, or consumers. The language of copyright laws should be tailored so that consumers that are not legally adept may understand their rights without having to receive a legal consultation before making a decision to purchase copyrighted material. Though there has been progress in recent years to educate consumers on the illegality of digital copyright goods, the spirit and language of copyright law must also reflect that progress.

The sale of digital goods will continue to drive world trade beyond borders and will continue to be affected by copyright laws. However, the copyright laws of the nation states were not designed to handle the digital trade in goods, and as such, the nation states should adopt an international copyright instrument to protect digital goods. This would be the first step toward a global super copyright code. The movements in international economic regulation and commercial activities also warrant more effective enforcement of intellectual property rights. The TRIPS regime is simply too weak to police the rigorous enforcement in international intellectual property rights and the sale of digital goods that transcends national borders.

238. For similar views, see CATHERINE SEVILLE, THE INTERNATIONALISATION OF COPYRIGHT LAW: BOOKS, BUCCANEERS AND THE BLACK FLAG IN THE NINETEENTH CENTURY 308 (Cambridge Univ. Press, 1st ed. 2009) (“Copyright law can be seen as a mechanism which regulates the legal protection of one part of the creative environment. Copyright law in effect crystallises certain creative values. . . . A crudely defined model of copyright will have implications for the creative milieu . . . .”).