> copyright in violation of the principle of the patent cases involving tying clauses.[104]

In *United States v. Loew's, Inc.*,[105] the United States Supreme Court once again condemned block booking, this time in relation to the licensing of motion picture films for televised performances. And again, the ruling diverged from traditional antitrust analysis by giving special attention to the importance of keeping the copyright holder's competitive actions limited to the exercise of exclusive rights in each individual copyrighted work. The Court simply saw that use of a copyright to gain an advantage in relation to transactions beyond the scope of the individual copyright is unlawful.

Pure antitrust law relates to competition alone, but a copyright holder's restraints on trade must also take into account the public policy concerns relating to copyrights. The Copyright Act conveys legal but very limited monopolies over certain activity in exchange for additional limitations that would not apply where a product is not copyrighted. Therefore, the tying of the copyright to something outside of the copyright is a misuse of the lawful monopoly. It avoids the Copyright Act's limitations and results in both an expansion of the individual copyright and a restraint in the market for the product or service outside of the copyright. Thus, any use of the copyright monopoly to exercise control beyond the bounds of the lawful monopoly must be unlawful.

For example, under the Copyright Act, the person who downloads a movie under license from the copyright owner owns that copy and has the right to give it away, sell it, or lend it. Are copyright holders free to nullify those rights by conditioning the license to download on waiver of the federal entitlement to re-distribute the copy without the copyright holder's consent? Because the

---

[104] Id. at 158 (footnote omitted).

[105] 371 U.S. 38 (1962).

rights of owners are part of the Copyright Act, and part of the trade-off of being granted certain exclusive rights in exchange for certain limitations, then it should be clear that copyright holders have no right to prevent the owners of lawfully made copies from disposing of them lawfully. Similarly, since the right to perform the work privately is beyond the scope of the copyright, conditioning a license of the right of reproduction upon the licensee's agreement to use only the tied operating system, codec or media player in conjunction with the reproduction and private performance of the work would appear to be unlawful on its face.

The Supreme Court's longstanding disapproval of such copyright tying has its roots in similar patent tying. In 1917, it explored the issue of private enlargement of the patent from an intellectual property law premise rather than as a mere antitrust concern. In *Motion Picture Patents Co. v. Universal Film Mfg. Co.*,[106] it determined that the owner of a patented motion picture film projector could not lawfully use a "licensing" mechanism to obligate purchasers of the machine to use it solely with motion pictures licensed under another patent (an expired patent, no less) which the company also owned.

> A restriction which would give to the plaintiff such a potential power for evil over an industry which must be recognized as an important element in the amusement life of the nation, under the conclusions we have stated in this opinion, is plainly void, because wholly without the scope and purpose of our patent laws, and because, if sustained, it would be gravely injurious to that public

[106] 243 U.S. 502 (1917).

> interest, which we have seen is more a favorite of the law than is the promotion of private fortunes.[107]

Although the exercise of exclusive rights conferred by patent law could not be unlawful in themselves, the Supreme Court concluded that the exclusive right of use could not be employed as a tool to expand the scope of the patent, and that "it is not competent for the owner of a patent, by notice attached to its machine, to, in effect, extend the scope of its patent monopoly by restricting the use of it to materials necessary in its operation, but which are no part of the patented invention, or to send its machines forth into the channels of trade of the country subject to conditions as to use . . . ."[108]

The relevance to copyrights of the Supreme Court's analysis in *Motion Picture Patents Co.* is inescapable. If it is unlawful to extend the statutory monopoly by limiting the use of a patented motion picture projector to products beyond the scope of the projector patent, then it stands to reason that it is equally unlawful to condition the licensing of copyrighted works upon the consumer's use of the computer operating system, codec or media player designated by the copyright owner, or upon relinquishment of statutory rights of the licensee. By agreeing to license rights the legislature gave to the copyright owner – such as the right to perform a work publicly or to reproduce it into copies – only in conjunction with the licensee's agreement to use specified

---

[107] *Id.* at 519. This position was followed in *Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27 (1931) (owner of a patented package that used solid carbon dioxide could not obligate licensees to use its own solid carbon dioxide). In *Carbice*, the court noted that the law had already risen to prevent the unwarranted extension of other limited monopolies, such as trademarks and trade names, *id.* at 35 n.5 (characterizing this limitation as being "inherent" in the monopoly grant).

[108] 243 U.S. at 516. "The patent law furnishes no warrant for such a practice and the cost, inconvenience and annoyance to the public which the opposite conclusion would occasion forbid it." *Id.*

access controls, codecs, digital media players or operating systems, the copyright owner is using the rights conferred by the legislature to bargain for rights denied to the copyright owner by the same legislature. In the process, the limited copyright monopoly is enlarged, and competition in the related goods and services is diminished. This is particularly true if the owner of the copyrighted motion pictures also owns an interest, either through direct investment or through a joint venture, in the exploitation of the intellectual property associated with the tied technologies.

But the law did not stand still in 1917. From this premise, the courts continued to develop a unique theory of misuse of intellectual property compatible with but independent of traditional antitrust law. In *Morton Salt Co. v G.S. Suppiger Co.*,[109] for example, the United States Supreme Court examined the appellate court's approval of the use of the patent monopoly in a machine for depositing salt tablets to force licensees to use only salt tablets manufactured by the patent holder. The appellate court had reasoned that, under traditional antitrust law, "it did not appear that the use of its patent substantially lessened competition or tended to create a monopoly in salt tablets."[110] The Supreme Court reversed on grounds of patent misuse, and concluded that, having done so, it was unnecessary to decide whether the antitrust statute itself had also been violated.[111]

> [t]he public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or

[109] 314 U.S. 488 (1942).

[110] *Id.* at 490.

[111] *Id.* at 494.

> limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant.[112]

Thus, even though misuse of intellectual property rights is consistent with antitrust theory, the misuse claim was viewed as independent of the antitrust claim. And this line of reasoning is not limited to patents. The *Morton Salt* ruling noted with approval the application of this doctrine to copyrights.[113] In *Paramount Pictures*, the Supreme Court further explained the limitations on copyright power in the context of "block booking."[114] It approved of the lower court's reasoning, which was based not only on the illegality of the restraint as a matter of competition law, but also for reasons based squarely upon the United States Constitution and Copyright Act:

> The District Court held it illegal for that [traditional antitrust law] reason and for the reason that it "adds to the monopoly of a single copyrighted picture that of another copyrighted picture which must be taken and exhibited in order to secure the first." That enlargement of the monopoly of the copyright was condemned below in reliance on the principle which forbids the owner of a patent to condition its use on the purchase or use of patented or unpatented materials.[115]

---

[112] *Id.* at 492.

[113] *Id.* at 494.

[114] Block booking is "the practice of licensing, or offering for license, one feature or group of features on condition that the exhibitor will also license another feature or group of features released by the distributors during a given period." 334 U.S. at 156.

[115] *Id.* at 157 (quoting the lower court, citations omitted). *See, also, In re Napster,* 2004 U.S. Dist. LEXIS 7236 at *39-40 (Feb. 22, 2004) ("Under the 'public policy' approach, copyright misuse exists when plaintiff expands the statutory

Based upon these principles, the doctrine of copyright misuse has developed both as a violation of antitrust law and as an affirmative defense against copyright infringement when the copyright holder, by means of an over-reaching license or other method of control, tries "to secure an exclusive right or limited monopoly not granted by the [Copyright] Office and which it is contrary to public policy to grant."[116]

Although some have questioned whether a pure copyright misuse claim may be pled affirmatively, the United States Supreme Court has shown no such reluctance. *Paramount Pictures*[117] and *Loew's*[118] did not involve separate claims for copyright misuse, but were antitrust cases. They arguably could have served to limit copyright misuse to just another label for a type of conduct unlawful under traditional antitrust law.[119] Nevertheless, they find copyright tying unlawful precisely

---

copyright monopoly in order to gain control over areas outside the scope of the monopoly. . . The test is whether plaintiff's use of his or her copyright violates the public policy embodied in the grant of a copyright, not whether the use is anti-competitive. However, as a practical matter, this test is often difficult to apply and inevitably requires courts to rely on antitrust principles or language to some degree") (citations omitted).

[116] *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 976 (4th Cir. 1990), quoting from *Morton Salt*, 314 U.S. at 491. Moreover, copyright misuse is such a violation of public policy that some courts will not require that the person against whom the misuse is directed be a party to the litigation. "[T]he fact that appellants here were not parties to one of Lasercomb's standard license agreements is inapposite to their copyright misuse defense." *Lasercomb*, 911 F.2d at 979.

[117] 334 U.S. 131, 156-159 (1948).

[118] 371 U.S. 38 (1962).

[119] *See Paramount Pictures*, 334 U.S. at 159 (referencing the public policy of antitrust laws). The discussion of copyright misuse was under the heading "Restraint of Trade," *id.* at 141. "The antitrust laws do not permit a compounding of the statutorily conferred monopoly." *Loew's*, 371 U.S. at 52. *See, also, Eastman Kodak Co. v. Image Technical Services, Inc.,* 504 U.S. 451, 4808 n. 29 (1992) ("The Court has held many times that power gained through some natural and legal advantage such as a patent, copyright, or business acumen can give rise to liability if 'a seller exploits his dominant position in one

because the tying products were copyrighted. As the Supreme Court later explained in the "Betamax"[120] case,

> The Court of Appeals' holding that respondents are entitled to enjoin the distribution of [video tape recorders], to collect royalties on the sale of such equipment, or to obtain other relief, if affirmed, would enlarge the scope of respondents' statutory monopolies to encompass control over an article of commerce that is not the subject of copyright protection. Such an expansion of the copyright privilege is beyond the limits of the grants authorized by Congress.[121]

If not even the Supreme Court could authorize such enlargement of the copyright monopoly as a remedy for instances of clear copyright infringement, certainly the copyright owner is not permitted to use the anti-piracy veil as a reason to enlarge its own copyright power.

Moreover, it is not necessary to establish market power in the manner of ordinary products because "either uniqueness or consumer appeal" of the product is sufficient to establish unlawful tying.[122] "This is even more obviously true when the tying product is patented or copyrighted."[123] To viewers, "there is but one '*Gone With The Wind*,'"[124] and the use of it to force others to take a less

---

market to expand his empire into the next'" (citations omitted)).

[120] *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

[121] *Id.* at 421.

[122] *Loew's*, 371 U.S. at 45 and n.4. *See also id.*, at 48 and n.5

[123] *Id.* at 45 n.4.

[124] *Id.* at 48 n.6. *Gone With The Wind* was ranked fourth among the "top 100 films of all time" by the American Film Institute.

desired film, to install and use an unwanted media player, to confer upon the copyright owner the power to meter out wholly private performances, or to relinquish a federal entitlement to sell or rent the downloaded copy, is unlawful precisely because the appeal of a copyrighted film is being used to enlarge the power and scope of the copyright in that film and gain control over market decisions pertaining to lawful noninfringing activity.

These legal foundations remain viable today, and have been expanded beyond the tying of other copyrighted works. For example, in *MCA Television Ltd. v. Public Interest Corp.*,[125] the Eleventh Circuit relied on these cases where the copyright owner was not leveraging a copyrighted work to force a second work upon an unwilling buyer, but instead, was using the copyrighted work to force certain economic terms upon the willing buyer of the second work. Although the issue came to the court as an antitrust counterclaim in a contract dispute, the court's analysis was substantively one of pure copyright law, as it expanded the reach of the *Loew's* and *Paramount* cases beyond mere block booking to cover the conditioning of a license of desired works (various television programs) on accepting another desired work (*Harry and the Hendersons*) for partial payment in cash rather than barter.

The applicability of *MCA Television* to the use of DRM technology is inescapable. Indeed, if unwanted business terms in contractual agreements would not pass muster, DRM technologies that foist those terms upon the other party without any bargaining opportunity must be even more deficient. For example, competing retailers and consumers may desire all of the copyrighted works being offered, and may also desire to use certain operating systems, media players, codecs or "good" DRM technologies that compete with those to which the copyrighted works are tied.[126]

---

[125] 171 F.3d 1265, 1277 and n.13 (11th Cir. 1999).

[126] They may also rather not have to "pay with the right of private performance" (*see* "Timing Out for Private Gain –

Finally, it should be noted that this is not a mere exercise in legal theory. Copyright holders (at least those who have aggregated a sufficiently large stable of copyrights to avoid being ignored) have already shown a propensity for using the power of the demand for their copyrighted works to dictate ties to products and services of their choice. Sony was one of the first to tie its music to its hardware and proprietary software, eschewing the popular MP3 format in favor of its own ATRAC3 format.[127] Individual record companies attempted to dictate the winners and losers in the digital delivery marketplace. Joint ventures among major record companies and movie studios have seen fit to eliminate competition among related products and services by dealing exclusively with persons who select their chosen operating systems, codecs and media players.[128]

The Limited Download," below at page 73) or "pay with first sale rights" (*see* "Eliminating Competition," below at page 79) rather than just paying with cash.

[127] *See* Yoshiko Hara, "Sony puts Memory Stick into latest Walkman," EETIMES, September 23, 1999 (available at http://www.eetimes.com/story/OEG19990923S0025) ("The scheme accepts audio CD data and MP3 files distributed on networks, but Sony has prepared a proprietary environment and new data compression technology to handle the data." "OpenMG application software resident on a personal computer accepts digital data, encrypts it with an OpenMG key, and converts the data for ATRAC3 to store on the PC's hard disk. (ATRAC3 is an encoder/decoder that Sony has developed for the Memory Stick.)").

[128] For example, MusicNet, a music "limited download" joint venture of Bertlesmann, Time Warner, EMI Group and Real Networks required subscribers to use Real Networks' Real Player; *press*Play, a music "limited download" joint venture of Sony Music and Universal Music Group (though they sold their controlling interests as the Department of Justice was investigating the ventures) required users to patronize Microsoft software; Movielink, a movie "limited download" joint venture of Time Warner, MGM Studios, Sony Pictures Entertainment, Paramount and Universal Studios, to which the movie collections of Disney and Arista were added, required subscribers to exclusively use a Microsoft operating system supporting Windows Media Player 8 or higher. Each of these joint ventures obligated consumers to keep paying for the "right" to privately perform copies and phonorecords they had lawfully made using these services, using "ugly" DRM to enforce those terms, as described in the next subsection.

While Apple gained initial notoriety by tying its music downloading service to its iPod hardware, Apple is not the copyright owner, so presumably it is not extending anyone's copyrights into the market for portable music players.[129] Until the major record companies begin allowing all traditional music retailers to compete with Apple by offering them the same "wholesale" prices for downloads, and allowing each to decide which codecs, media players and hardware systems to support, the public may never learn just how easy and inexpensive it can be to enjoy downloaded music.

2. Timing Out for Private Gain – The Limited Download

In the eyes of copyright law, a "limited download" is the same as a store-bought copy in every respect, except that it has not been distributed.[130] Yet, more sophisticated DRM can be used when allowing the consumer to reproduce the copies at home, one at a time, for a specific computer operating system and media player, than when it is being reproduced by the thousands or millions at

---

[129] It is certainly conceivable that a hardware manufacturer could enter into an agreement with the major record companies to give them a share of the revenue from the sales of the hardware, in which case the same anti-competitive and copyright-enlarging evils would come into play.

[130] Under the authority of the copyright owner, the store-bought copy is reproduced at a factory (an exercise of the exclusive right of reproduction), and then distributed to wholesalers and retailers (an exercise of the exclusive right of distribution). Once sold, however, Section 109 of the Copyright Act kicks in, exhausting most of the distribution right over those copies. In contrast, under the authority of the copyright owner, the downloaded copy is reproduced in a home and is not distributed. The copyright owner has only exercised the right of reproduction. Section 109 nevertheless exhausts the distribution right because it applies whenever someone other than the copyright owner owns the copy or phonorecord. Since the consumer owns the tangible medium upon which the download is reproduced, the consumer owns the resulting copy or phonorecord, and the Section 109 rights of such owner trump most of the distribution rights of the copyright owner.

a factory for distribution to people with different operating systems and media players. When hardware manufacturers must somehow be persuaded to inject complexities into the devices that will give copyright owners greater control over what consumers can do, extreme behavior is likely to be somewhat muted. But when "software side" DRM can exploit features of a particular hardware or operating system platform, the countervailing interest of hardware manufacturers can be disregarded. The copyright owner's only limitations are the limits of its own ingenuity. Thus, DRM that is dependent only upon computer software at the disposal of the copyright owner is likely to be used much more aggressively. It is also likely to be uglier.

Such has been the case in several efforts by copyright owners to gain control over the public right of private performance.[131] The most recent has been through Microsoft Corporation's "Janus" DRM – a new version of its DRM for the Windows Media Player.[132] The new DRM would limit the length of time or number of times that the owner of a legally downloaded copy of a work could perform it privately (*i.e.*, play the music, movie or game, or read an electronic book). As explained above, no copyright owner has the exclusive right to perform a work privately. This DRM, both in purpose and in effect, would empower the copyright owner that uses it to claim that right by might.[133]

---

[131] See the limitations upon the performance right at page 7, above.

[132] "Microsoft Announces New Version of Windows Media Digital Rights Management Software" (hereafter "Microsoft DRM Press Release"), press release by Microsoft Corporation, May 2, 2004, available at http://www.microsoft.com/presspass/press/2004/may04/05-03DigitalRightsManagementTechnologyPR.asp. *See, also,* John P. Mello, Jr., "Microsoft Updates DRM, Code-Named Janus," *Eommerce Times*, May 4, 2004, available at http://www.ecommercetimes.com/story/security/33626.html ("Janus will offer other pricing opportunities, such as renting music," according to one of its supporters.)

[133] Moreover, the new Microsoft DRM could effectively eliminate competition in the secondary markets for lawful

Microsoft has been skillfully spinning this limitation as just the opposite. Instead of acknowledging that the DRM would place limitations upon the uses of lawfully downloaded works that Congress has entitled the public to exploit without limitation from the copyright owner, or admitting that what Microsoft is actually offering is greater monopoly power to the copyright owner to limit the uses to which the public is entitled by law, Microsoft is pitching this devastating blow to the public's statutory rights as "good for you." The Microsoft Press Release quotes a Disney executive calling it "a positive development in the continuing effort to provide consumers with more choices for enjoying legitimate entertainment content on emerging digital platforms."[134] In reality, the DRM gives copyright owners more choices for gaining control over lawful noninfringing activity, such as private performances, rentals, gifts, sales or lending.

One of the "new" freedoms is supposedly the ability to "rent" downloaded copies. The term "rental" has never meant having to pay for the freedom to enjoy your own property. This is the equivalent of letting copyright owners charge books store patrons for reading a book twice.

---

copies. The fact that Section 109 of the Copyright Act entitles the owner of a lawfully downloaded copy of a copyrighted work to sell or transfer possession of it without the consent of the copyright owner is not in dispute. Even the major copyright holding companies agree. *See, e.g., Joint Reply Comments of Copyright Industry Organizations Report to Congress Pursuant to Section 104 of the Digital Millennium Copyright Act,* dated September 5, 2000, submitted by the American Film Marketing Association, the Association of American Publishers, the Business Software Alliance, the Interactive Digital Software Association, the Motion Picture Association of America, the National Music Publishers' Association and the Recording Industry Association of America; *Hearing Before the Copyright Office and the National Telecommunications and Information Administration on a Joint Study on 17 U.S.C. Section 109 and 117* (November 29, 2000) (statement of Cary Sherman on behalf of the Recording Industry Association of America, Inc., p. 298).

[134] *See* note 132, above.

Copyright owners enjoy an exclusive right of public performance, but do not have an exclusive right of private performance.[135]

> The Copyright Act does not give a copyright holder control over all uses of his copyrighted work. Instead, [Section 106] of the Act enumerates several "rights" that are made "exclusive" to the holder of the copyright. If a person, without authorization from the copyright holder, puts a copyrighted work to a use within the scope of one of these "exclusive rights," he infringes the copyright. If he puts the work to a use not enumerated in [Section 106], he does not infringe.[136]

Thanks to the Microsoft DRM, however, copyright owners can obtain for themselves an exclusive right of private performance over copies owned by those who legally downloaded them.[137]

Although Section 202 of the Copyright Act makes clear that the copyright holder's copyrights in the work are distinct from the owner's rights in lawful copies of the work, the new Microsoft DRM would enable copyright owners to pretend that ownership of the copy has no bearing. Ironically, this would run counter to the position, vigorously defended by copyright owners when it was to their benefit – a tax benefit – to do so. In testimony before Congress addressing the question of whether the delivery of content of e-commerce networks should be considered trade in

---

[135] Section 106(4). "No license is required by the Copyright Act, for example, to sing a copyrighted lyric in the shower." *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 155 (1975). Of course, those who own lawfully made copies and phonorecords should not be relegated to singing in the shower, but have the right to play them in the car or the living room as well.

[136] *Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390, 393-95 (1968) (footnotes omitted).

[137] It warrants noting that private performances do not constitute infringement regardless whether the person rendering the private performance owns a copy (or phonorecord) of the work.

goods or trade in services, or both, the Motion Picture Association of America insisted that downloaded copies should be treated just like physical copies, giving this example:

> If a consumer were to place a telephone order for a DVD of the film "Finding Forrester" and have a copy of that DVD delivered to his house on a UPS truck, that is a "goods" transaction. Likewise, if the same consumer ordering a copy of the same DVD on his/her computer and had the same content delivered digitally and downloaded from his computer to a write-able DVD – that is still a "goods" transaction. The only difference is that a digital network instead of a delivery van provided the transportation from the retailer to the consumer.[138]

The Motion Picture Association of America maintains that the digital nature of the delivery does not change the character of what is in substance still a physical "goods" transaction, and rightly so. The only thing that has changed is the location of the manufacturing facility – from a large factory to an individual's home. Yet, with the advent of Microsoft's new tool for, in effect, sending an agent along with the delivery truck to prevent the owner from enjoying the work as Congress intended unless the copyright owner is paid again, at least two members of the Motion Picture Association – Disney and Time Warner – appear to have abandoned their principled position in exchange for one favoring exploitation of copyright expansionism enabled by use of Microsoft's new DRM technology.

To illustrate why copyright owners should not be permitted to gain control over private performances using Microsoft's new DRM for so-called "rental" business models, let's consider

---

[138] *Impediments to Digital Trade:* Hearing before the Subcommittee on Commerce, Trade and Consumer Protection of the House Committee on Energy and Commerce, 107th Cong., Serial No. 107-36 (May 22, 2001) at 21 (statement of Bonnie J.K. Richardson, Vice President for Trade & Federal Affairs for the Motion Picture Association of America).

what would happen if the copyright owner engages in a true rental business model. The copyright owner would reproduce copies or phonorecords and rent them to consumers. All it would be doing is transferring possession of the disc (not ownership), with no transfer at all of any copyrights. Yet, the renter would be free to play the work as many times as desired, without any limitation other than the expiration of the rental period, at which time the return of the disc to its owner – the copyright owner – would make it impossible to continue performing the work. But if the renter fails to return the disc when due and continues to perform the work after the right of possession has expired, such private performances would infringe no copyright. The copyright owner's only recourse would be for late fees – simple breach of the rental agreement. If we consider, in contrast, a downloaded copy, owned lock, stock and barrel by the consumer, it is evident that, just as with the rental copy, the copyright owner has no claim under law to prevent the private performance of the work, and since no rental is involved, there is no obligation to return anything to the copyright owner (as the copyright owner has never even owned the copy in question). The public policy foundation of the Copyright Act is to encourage all uses short of infringement.[139] The use by the copyright owner of Microsoft's DRM to limit noninfringing use constitutes a major expansion of copyright power by technological fiat.

Finally, it would be short-sighted to focus solely on the copyright owners of the works to which the Microsoft DRM would be applied. What is in this for Microsoft? The pay-off for agreeing to implement the restraints on secondary markets and expansion of the copyright into the realm of private performances is that Microsoft's Windows Media Player would be designated as the sole "supported" media player. In exchange for Microsoft assisting in the ugly DRM effort, the copyright

[139] *Fortnightly*, 392 U.S. at 393, n.8 (citing BENJAMIN KAPLAN, AN UNHURRIED VIEW OF COPYRIGHT (New York: Columbia University Press, 1967), 57).

owners force the consumer to use Microsoft's Windows Media Player. Consumers who wish lawfully to download copies of copyrighted works and perform them privately on a more competitive media player of their choice will find that they are unable to do so. They may be able to use any number of media players for some works, but still have to use Microsoft's product to gain access to those works whose copyright owners chose to enter this agreement with Microsoft to restrain trade in second-hand products and extract payment for (or control over) non-infringing private performances.

3. Eliminating Competition

The first sale doctrine is codified in section 109 of the Copyright Act, which states in 109(a) that notwithstanding the copyright owner's section 106(3) right of distribution, the owner of a lawfully made copy "is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy." Section 202 establishes that the owner of the copy doesn't necessarily control the section 106 rights, and the owner of the section 106 rights does not necessarily control the copy. The intellectual property interest and the physical property interest are separate (and, as we have seen above, the intellectual property interest does not extend to noninfringing uses, such as the always noninfringing private performance or display of a work). If through use of DRM technology, however, the owner of the intellectual property interest can gain control over the tangible property interest, the copyright owner could nullify section 202's distinction, nullify section 109(a)'s entitlement to part with ownership or possession of the tangible medium without the copyright owner's consent, and nullify the public's freedom to perform the work privately from any copy.

In the two previous sections we have seen that it is unlawful to leverage the copyright monopoly into control over rights, products or services that are not part of the copyright being

leveraged, and we have seen that it is improper to interfere with the public's right to perform works privately. While it may be the case that such burdens are but unintended collateral damage in an effort to protect copyrights or enhance dissemination, when the purpose and effect of a given DRM is to eliminate lawful competition, the practice should be condemned *per se*. Unfortunately, the practice is becoming more widespread.

As we saw in reviewing use of DRM to "time out" access to works, thereby rendering them incapable of being performed privately, some such limitations might be positive, as when it facilitates and encourages more reproductions,[140] and other limitations may be tolerable under the right circumstances.[141] In some instances, in contrast, the sole purpose of using DRM technology to make a work inaccessible for private performances is to eliminate competition from the lawful secondary markets involving redistribution of the work. (The same purpose and result may be achieved by "tethering" a particular copy to a device, such that it is only accessible for private performance if it is present with the device, such that it cannot be fruitfully sold, lent or given away apart from the hardware.)

May the monopoly power of copyright, however limited, be used to gain control over distribution of a work after the distribution right has been terminated by law? May the copyright holder use technological devices to destroy competition in the market for used copies of its works, including commerce by sale, rental, gift, or lending? As noted above,[142] the answer is straightforward:

---

[140] *See* "Perfecting Authorized Reproductions," at page 23, above.

[141] *See* "Timing Out for Public Good" on page 36, above.

[142] See page 16, above, discussing competition law limitations upon copyrights, generally.

"A copyright owner may not enforce its copyright to violate the antitrust laws or indeed use it in any 'manner violative of the public policy embodied in the grant of a copyright.'"[143]

Some of the motion picture studios have made no secret of their desire to leverage copyright and market power into control over the distribution markets, particularly video rental stores. One could argue that if copyright holders are too restrictive, their sales will be impacted, and they will make adjustments. But such view ignores two basic principles.

First, copyrights are monopolies. There are no substitutes for the works in greatest demand. Competition in the delivery of copyrighted works occurs primarily at levels of distribution below the copyright owner. For example, if consumers are dissatisfied with terms and conditions imposed by the retail seller, they can look to competing retailers for satisfaction. Even though each retailer may pay the same wholesale price for copies of the work, they can compete on all terms and conditions of the sale to attract customers. If, however, the copyright owner can impose uniform terms and conditions that all retailers must honor, then there would be no alternative source offering better terms and conditions for the same product.

To illustrate, if one retailer were to make each customer sign a EULA stating that they will not let anyone else watch the movie, read the book or listen to the CD, or agreeing to destroy their copy after reading it or playing it, a consumer who objects to those terms needs only go to a competing retailer. If, on the other hand, the copyright owner imposes those very same restrictions upon a copy by use of technology or EULAs, every retailer will be forced to pass those restrictions on to the consumer, and the competitive benefits the consumer might enjoy are lost. Moreover, because each copyrighted work is unique, there is not likely to be a satisfactory market substitute for

[143] *Tricom, Inc. v. Electronic Data Systems Corp.*, 902 F. Supp. 741, 745 (E.D. Mich. 1995) (quoting *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 978 (4th Cir. 1990)).

the work. For example, even among popular films, a consumer wanting to watch *The Matrix Reloaded* is not likely to substitute *Spy Sorge* just because the price is better, or because they do not like the restrictions the copyright owner placed upon the film. Plus, if there is independent demand for *Spy Sorge* and *The Matrix Reloaded*, buying, renting or watching one is not going to reduce the desire to buy, rent or watch the other.

Second, because of the uniqueness of each copyrighted work, there is little true competition between the major motion picture studios for consumer loyalty. That is, they attempt to draw consumers to demand a particular movie title, but not to demand a particular movie studio. With few exceptions, consumers are oblivious to which studio owns the copyright in a motion picture. When a group of friends decides to watch a movie, they may discuss which genre of film they want to watch, which theater or video rental store they will go to, and which specific movie title they can agree on, but it would be very unusual to discuss which copyright owner's works to patronize. The same is true for books: A person walking into any bookstore may find books organized by author, by title, by genre, but rarely by publisher. Music stores will organize CDs by artist or by genre, but not by record label. Movies, likewise, depend upon independent aggregators who present them to consumers based on genre or title, not by copyright owner.

Precisely because of the second point, motion picture studios have been unsuccessful in their efforts to establish a studio-based retail presence. Warner announced it was shutting down its retail stores, and Disney is cutting back as well.[144] Consumers simply do not wish to shop studio-by-studio. The consumer interface for motion pictures requires the services of aggregators who will select the merchandise most likely to be in demand without regard to who owns the copyright. With independent retailers, it matters not whether a given studio has the greatest market share. If a retailer

[144] "That's All Folks," *ICv2* July 9, 2001, available at http://www.icv2.com/articles/news/528.html.

believes there will be consumer demand for a particular title from a small independent studio, then that title will be given prominence based upon its own merit, and not based upon the studio's size. The same is true for libraries, swap meets, flea markets and yard sales.

Although physical constraints and distribution logistics made it difficult for copyright owners to exercise complete control over distribution in physically delivered copies, DRM controls are clearly intended to impact competition in the physical distribution of lawful copies. Consider the words of Walt Disney's Chief Executive Officer, Michael Eisner, four years ago, as his company was viewing the Internet video-on-demand market, and considering possible alliances with other major studios. He explained that he wanted to eliminate the middleman, which is to say, eliminate competition from retailers and distributors. "The studio would like to offer downloads directly from their own websites." "It's like a $2.50 video rental but we keep all the money."[145] Warren Lieberfarb, who at the time was President of Warner Home Video, told investors that the very first "business goal" of Warner Home Video was to "Replace video rental business and create a higher margin alternative to VHS rental."[146] Mr. Lieberfarb explained: "It's almost a business imperative for studios to displace the rental market" with VOD (video-on-demand) where the studios are "in control of their own margins."[147]

To achieve such objectives, movie studios who own the copyrights must keep upward pressure on the price (particularly the rental price) of DVDs containing new release movies.[148] In Europe, for example, where the rental right is not limited to those copies owned by the copyright

[145] Paul Sweeting, "Digital Could Break Chains That Bind Studio Profits," *Variety*, April 10, 2000.

[146] Paul Sweeting, "VB In Depth: Lieberfarb Talks Rent Control," *Video Business*, November 4, 2002.

[147] *Id.*

[148] *Id.*

owner, movie studios can routinely set a much higher wholesale price for copies they "authorize" for rental, thereby suppressing the kind of price competition that exists in the United States between rentals and sales. The resulting higher rental prices relieve downward pressure on sales prices and will make what are now relatively expensive Movielink downloads appear more competitive.[149]

In the United States, where the rental right cannot be used to suppress price competition between rental and sales channels (including re-sales), these stated objectives are being pursued through the use of DRM technology aimed squarely at the elimination or suppression of competition from secondary markets. Disney, for example, is pursuing secondary market elimination on three fronts: Time-limited downloads, vanishing DVD movies, and, most recently, time-limited personal video recorder functions.

We have discussed time-limited downloads above. In Disney's case, it has recently joined the MovieLink joint venture[150] to disseminate its works under a plan that licenses the reproduction by the consumer but employs DRM (through Microsoft's Media Player) so that it cannot be sold, rented, lent or given away.

The MovieLink joint venture goes far beyond mere pooling of copyrighted assets, as the venture involves the joint use by the member studios of identical restraints upon lawful uses – restraints such as tethering and timing out, which serve no purpose but to extend control over

---

[149] Unfortunately, video retailers in Europe are also finding that the artificially higher retail (sales and rental) prices lend themselves to a more attractive market for professional pirates. They, too, benefit from less price competition.

[150] *See* Holly J. Wagner, "Buena Vista PPV Inks Deal With Movielink," Video Store Online, posted July 23, 2003, available at http://www.hive4media.com/index.cfm?sec_id=2&newsid=5109; Alex Veiga, "Disney, Movielink Ink Deal to Make Movies Available Online," *The Miami Herald*, *Herald.com*, June 23, 2003, available at http://www.miami.com/mld/miamiherald/business/6369515.htm.

copyrighted works beyond the limits of the copyright authority. Although use of such restraints is not protected from antitrust scrutiny,[151] particularly when used in concert by the major studios, the DMCA nevertheless protects them from being circumvented by the public.[152] This gives the major motion picture studios the power to license reproductions from the Internet into lawful copies, coupled with the suppression of all trade in those lawful copies and the unauthorized charging for private performances. In an interview with *Video Store Magazine*, Jim Ramo, the CEO of Movielink, recently explained it this way:

> "[Consumers] will simply go to a web site, search and choose titles and be given suggestions. They'll click on the movie, click 'buy' and then download it," Ramo said. "The intent is to have a per-viewing capability and a price per view."[153]

---

[151] The Department of Justice has already raised concern about the effects of pooling where the pool includes non-essential patents. "Inclusion in the pool of one of the patents, which the pool would convey along with the essential patents, could in certain cases unreasonably foreclose the competing patents from use by manufacturers; because the manufacturers would obtain a license to the one patent with the pool, they might choose not to license any of the competing patents, even if they otherwise would regard the competitive patents as superior." Letter from Joel I. Klein to Garrard R. Beeney, Esq., December 16, 1998, at p.10. (At the time, Mr. Klein was Assistant Attorney General, Antitrust Division, United States Department of Justice.) It stands to reason that this concern would be just as valid where pooled copyrighted works were made available only on condition that certain non-essential technologies or business models were employed, thereby foreclosing competition in competing and possibly superior technologies and business models.

[152] It is conceivable that courts will refuse to enforce the DMCA where it is being used to protect the use of technologies to unlawfully expand copyrights beyond their lawful limits, but this possibility has not yet been tested in United States courts.

[153] Holly Wagner, "UPDATE: Movielink's New CEO Talks Business," *Video Store Magazine*, Feburary 1, 2002, available at www.hive4media.com/news//htnl/industry_article.cfm?article_id=2539. As noted, copyright law does not authorize

In other words, the Movielink studios intend to charge for the right of reproduction (the download), and then usurp the right of private performance by charging the owner of the lawfully made copy on a "per view" basis. Indeed, the article goes on to explain that viewing these copies will be permitted during the "pay-per-view window," which is to say, consumers could get to privately perform the works from their own copies only during the period in which cable systems were licensed to make public performances of the works. (The cable pay-per-view service is simply another way that licensees can structure payment for public performances, as an alternative to cable subscription fees or selling of advertising time during free (to the public) broadcasts.[154]) And, in case Movielink's plan to take control over private performances of lawfully made copies was not sufficiently clear, Ramo indicated a willingness to actually destroy the lawful copies belonging to others:

> "We definitely are going to have a fee-per-use basis," he said. "What will happen to the content on your hard drive, whether it self-destructs or sits there on your hard drive, will be in the software business rules."[155]

Of course, it would not really "self-destruct," as those "software business rules" would implement affirmative steps by Movielink, in cooperation with DRM software companies (Microsoft, in this

---

copyright owners to charge "per view" for private performances.

[154] The copyright holder has the right to authorize the public performance, but the decision whether to cover the cost of the license and earn a profit from the public performance by selling advertising on "free" television broadcasts, charge for cable subscriptions, or charge cable subscribers an additional "per-view" fee is not within the exclusive rights of the copyright holder. *See, e.g, United States v. Paramount Pictures, Inc.,* 334 U.S. 131, 142 (1948) (license to publicly perform a motion picture does not entitle the copyright owner to set minimum theater admission prices).

[155] Holly Wagner, "UPDATE: Movielink's New CEO Talks Business," *Video Store Magazine*, Feburary 1, 2002.

case), to destroy or disable the lawfully made copies belonging to others and prevent those copies from being lawfully re-distributed in competition with their new copies.

"The movie studios aren't about to give up their best product for VOD until they're absolutely satisfied they've gotten the best deal for themselves, which means exploring direct-distribution options like streaming video over the Internet; hammering out favorable revenue splits with operators; and possibly eliminating middlemen 'aggregators.'"[156] Warner Home Video's spokesperson was quoted along those same lines: "'The video rental and sales business has matured and now exhibits only marginal rates of growth,' [Warner Home Video President Warren] Lieberfarb said. 'Accordingly the opportunity growth for Hollywood comes . . . from the aggregation of VOD and DVD [sales].'"[157] The article notes that Lieberfarb "also suggested that the industry unify its VOD message under one brand," which appears to explain part of the rationale for the MovieLink joint venture. These comments echoed a similar statement by Yair Landau, president of Sony Pictures Entertainment, four years ago, as reported in *Daily Variety*: "Studios must work together and act swiftly or 'you're opening it up to someone else to aggregate the services.'"[158]

Large copyright holding companies such as these are able to gain monopoly controls that are exponential in relation to the number of copyrighted works they control. In the words of the Register of Copyrights:

> Copyright has sometimes been said to be a monopoly. This is true in the sense that the copyright owner is given exclusive control over the

[156] Charles Paikert, "Oh VOD, Where Art Thou?," *Cablevision* (April 9, 2001, In Focus, p.8).

[157] R. Thomas Umstead, "Warner Video Chief Bullish on VOD," *Multichannel News* (March 26, 2001, Top Stories, p.3).

[158] Scott Hetrick, "Bishop fast-forwards MGM video-on-demand," *Daily Variety* (December 8, 2000, p. 8 (quoting Yair Landau)).

> market for his work. And if his control were unlimited, it could become an undue restraint on the dissemination of the work.
>
> On the other hand, any one work will ordinarily be competing in the market with many others. And copyright, by preventing mere duplication, tends to encourage the independent creation of competitive works. The real danger of monopoly might arise when many works of the same kind are pooled and controlled together.[159]

The restraints do not stop at joint ventures for movies downloaded over the Internet. Disney recently announced a new venture of its own, "Movie Beam," intended to allow consumers to reproduce copies at home, but armed it with a DRM technology that destroys the copies in 24 hours.[160]

Restraints on the ability to re-distribute lawfully reproduced copies may seem quaint considering that most applications at the moment involve reproductions onto hard drives or "personal video recorders" that are unlikely to be lent, traded or resold for their content, but DRM technology is now available, and currently being test-marketed by Disney, to eliminate competition in the secondary market (resales, rentals, gifts and lending) for ordinary store-bought DVD movies.

---

[159] *Register's Report on the General Revision of the U.S. Copyright Law* (1961), at 5.

[160] *See* Erik Gruenwedel, "Disney to Expand Movie Beam as DVD Sales Push Q2 Net," May 12, 2004: Disney CEO Michael Eisner "said Disney remains encouraged by the 'technological opportunity' represented by Movie Beam, a TiVo-like video-on-demand subscription service launched last year . . . . Movie Beam allows consumers to download up to 100 films (at $4 per new release; $2.50 per catalog release) into a set-top box via over-the-air TV broadcast spectrums. Each film can be viewed repeatedly over a 24-hour period."

They take a standard DVD and go the added time and expense of making it inoperable after a period of time. Despite the increased cost of manufacturing, the wholesale price will be much lower than the standard DVD that costs less to manufacture. The product itself will be less versatile. It will have a shelf life of only about a year unopened, but once removed from the package, it will last only 48 hours. The standard DVD is cheaper to manufacture, has a virtually unlimited life span, and will not degrade after opening. How can a copyright owner justify going to the added expense of making a product much less valuable, and then selling it for a fraction of the cost of the more valuable product that was cheaper to make? At first glance, it would seem to be against the copyright owner's self-interest to do so. If the copyright owner expected to benefit from selling at a much lower wholesale price, one would think that the cheaper price could more easily be offered on an unaltered DVD, since the manufacturing cost is lower and demand for a more versatile product (with a resale value) would be higher. The benefit to the copyright owner can only be derived from its theft of the public's rights and elimination of the lawful secondary markets.[161]

As we saw above, the copyright owner has no right to control private performances. Even a thief can watch a stolen DVD without infringing the copyright. By taking away from the public the ability to perform works using lawful copies that are already in circulation, the copyright owner using the time-limiting technology apparently expects to sell more copies at greater total net profits, even if that means a lower number of viewers. To do so, the lowest priced copies (such as by rental and re-sales) and free copies (such as from gifts or library lending) that are currently available would have

[161] Admittedly, the rental market need not be eliminated completely, but simply made less competitive or more profitable to the copyright owner. If the cheap 48-hour DVD were to take off, one would expect copyright owners to simply price the unlimited play DVD much higher, knowing the rental stores will have no choice but to buy the unlimited play version. This is exactly what is occurring in Europe, where the "rental right" (instead of the DRM technology) enables the copyright owner to prevent price competition between sales and rentals.

to be suppressed. Those who are least advantaged economically – that is, those who depend upon the cheapest rentals, used product markets, library borrowing, private lending and bartering or gift economies (because they cannot afford anything more) – are the most likely to be harmed, even as more copies are available at a cheaper price for those who can afford to buy new products.

Accordingly, the copyright owner's motive in deploying such DRM is profit, but it can only achieve those profits by eliminating competition from lawful secondary circulation. That is, a DVD that "vanishes" after 48 hours will only be attractive at a $6-$7 retail price if used DVDs at that same price (with unlimited playback and resale value) are eliminated, if rentals available for $2-$4 are eliminated, and if library lending and free gifts of used DVDs are eliminated. Flexplay Technology's "EZ-D" DRM technology[162] being tested by Disney's Buena Vista Home Entertainment accomplishes all this.

Thus, Disney and other copyright owners who agree with Flexplay to suppress those secondary markets will be the only beneficiaries. They will make higher profits even as fewer people get to enjoy the movies and the public bears the cost of millions more discs being manufactured, sold, and tossed in a landfill. The unlimited life-span of freely re-circulating copies envisioned by Congress would be tossed in the dust-heap of history.

When copyright owners use DRM technology to gain additional rights or additional control beyond the copyright, they circumvent the limitations the law has placed upon their exclusive rights. The public policy granting copyrights "excludes from it all that is not embraced" in the original

[162] The EZ-D DRM technology is the DRM technology currently being market tested by Buena Vista Home Entertainment, and described below. It is a product of Flexplay Technologies, Inc. *See* http://flexplay.com for a description of Flexplay and the EZ-D technology, and http://video.movies.go.com/ez-d/ for Buena Vista Home Entertainment's implementation of it.

copyrighted work, and "equally forbids the use of the copyright to secure an exclusive right or limited monopoly" beyond the scope of the Copyright Act and which is "contrary to public policy to grant."[163] In short, an agreement between a copyright owner and Flexplay to employ the EZ-D DRM technology is calculated to eliminate lawful trade in, and repeat lawful performances of, non-infringing copies in violation of antitrust law and unlawful avoidance of the limitations imposed upon copyrights. It is directly antagonistic to the purpose of copyright law in encouraging the widest possible dissemination of creative works, and should be unlawful *per se*.

IV. CONCLUSION

Before making use of a particular DRM technology, the copyright owner should first ask whether the technology serves to either protect any of the six specific rights under copyright law, or whether it serves to increase dissemination of the work. If the answer is no, then such use should be abandoned because it serves no legitimate purpose. If the answer is yes, a determination should be made as to whether any negative impacts (enlargement of the copyright beyond its statutory scope, reduction in public access to and enjoyment of the work, reduction in competition for licensed reproductions, displays or public performances) are minimized and are reasonable in light of the public benefits to be gained, and no greater than necessary to achieve those public benefits.

Just as there is a "good" gate that I might install to prevent unauthorized access to my driveway, an "ugly" gate might be one I put up on your driveway, or on a public road, preventing access without my permission to property I do not own. Like good uses of gates, it makes sense that

[163] *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 977 (4th Cir. 1990) (quoting with revisions from *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 492 (1942)) (brackets omitted).

good uses of DRM should be encouraged, and picking their locks should generally be prohibited. Like ugly uses of gates, ugly uses of DRM should be prohibited, as the installer of the gate or the DRM has no right to limit the access, the motives of the installer are unjust, and the burden on the public and on the rights of others is too great.

Somewhere in between is the "bad" gate used to protect my property, but that I installed in a way that partially blocks the public road or damages my neighbor's property. Just as it is not unreasonable for the government to prohibit private gates from swinging out into the roadway, and just as my neighbor should have a cause of action for trespass if the hinge post of my gate is installed on my neighbor's property, so, too, should the government have freedom to require that DRM technology likely to have adverse effects upon the public or the rights of others be redesigned so as to avoid those effects.

DRM can, indeed, be used to manage rights of the copyright holder, and to the degree that it does it can serve a valuable purpose by encouraging the copyright holder to disseminate works with some comfort that the rights conferred by law will be respected. DRM can sometimes be used to manage rights for a positive end but with unintended consequences. Technological limitations imposed with the sole intent of protecting the copyrights from infringement may have the effect of limiting lawful uses the copyright holder has no right to control. In those cases, a careful assessment of whether the end justifies the means is in order. Finally, DRM can be abused, either by automating and technologically enforcing what would ordinarily constitute an unlawful agreement in restraint of trade or by using technology to trump statutory limits upon the copyright or to diminish freedoms to which the public is entitled by law. Such uses of DRM must be challenged and changed.

****

[i] John T. Mitchell is an attorney practicing in Washington DC. Since 1988, he has represented the interests of retailers and distributors of lawfully made copies of the works of others. He may be contacted at Interaction Law,